THE MONEY PROBLEM.

INQUIRIES CONCERNING

THE

NATURE AND OFFICE OF MONEY,

AND THE

SOURCE OF ITS VALUE;

WITH

REMARKS ON INFLATION,

COMMERCIAL LUNACY,

AND THE DOWNFALL OF PRICES.

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PREFACE.

At the time the legal tender act was taken up for discussion, in January, 1862, the people generally took but little interest in it, and comparatively few, as I apprehend, understood its fearful significance. It is charitable to suppose that Congress itself (or a majority of it) was not fully aware of what it was about to do. History had been forgotten; the costly and bitter experiences of the Revolution were set aside; the remonstrances of a few earnest men were unavailing, and an experiment repeated which a hundred times had failed with disaster. When the law had begun to work out the expected results, I undertook to write the early history of paper money in Connecticut, hoping in that way to do my part in setting forth the perils of the course pursued by the government. The work, entitled "A Historical Account of Connecticut Currency, Continental Money, and the Finances of the Revolution," 192 pp., appeared just at the close of the war. It made a part of the first volume of the New Haven Colony Historical Society.

Twelve years later, after the law had wrought out the mischief it was fitted to produce, and the speculating phrensy had run through its customary stages, culminating in the panic of September, 1873, I prepared and printed for private circulation a small pamphlet, in which I attempted a brief exposition of the nature and office of money, and the laws which govern it. It bore the title of "The Money Problem." A few friends appeared to think so well of it that I have undertaken to write a second essay on the same general subject, in the latter treating of topics not mentioned or barely alluded to in the other. Each was intended to be an independent article, more or less complete in itself, which fact may account for occasional repetitions. Both will be found in the pages which follow; but in some cases the last essay—"The Money Problem Again"—will be put in covers of its own. If I have failed in any or in all, I have done no more than many others who have written at more length, and spoiled paper in larger amount.

New Haven, Conn., *April*, 1877.

THE MONEY PROBLEM.

Money is to most of us a familiar object, a necessity of our daily life. It is used as an instrument or medium of exchange by which the wants of trade, perennial as our industry, are supplied. The representative of all material good, it becomes known to us before we begin to reason, and in after years the facts which are so old seem, as with all our early acquisitions, to need little explanation, and none which appearances do not suggest. Time-worn and seemingly simple, they excite in most men no curiosity and no serious inquiry. Like the phenomena of our own minds, their nearness and perpetual presence too often breed indifference, and turn aside philosophical investigation. In this manner, indistinct and erroneous views come to be entertained. Another thing should be noted. Our business men who have most to do with money have little time for study, none for abstract thought. They are not trained to it, and can see no profit in it. In the evening of life, when riches and some leisure have been secured, new tastes and habits cannot well be acquired; faculties long unexercised cannot be awakened, or will not work effectively. There is, as I am aware, one splendid exception to these remarks. David Ricardo, the profoundest of all the writers on Political Economy, was long and extensively engaged in the business of the London stock exchange, and thereby acquired a large fortune. But Ricardos are not a common growth, and cannot be extemporized. Usually, men in trade, whatever their natural gifts, are fully occupied in the management and supervision of their affairs; cannot devote themselves to science, and would not succeed if they did. Notwithstanding this manifest unfitness, caused by occupation, the banker or capitalist who has spent his best years among money-bags and greenbacks thinks himself specially qualified by his experiences to dogmatize concerning the nature of money, and the laws which govern it. Nor does the unthinking world question his authority to teach. If the secretary of the U. S. treasury be in doubt regarding a proposed measure or policy, he takes the "fast train" to consult the magnates of Wall street. He does well to get the impressions of experienced financiers. They have much knowledge of details which mere politicians and scholars have not, and are familiar with the practical working of the commercial machinery. Some of them too are men of enlarged and cultivated understandings. To say the least, it requires as much intellect to organize and superintend, with the best results, an extensive trade or industry, as it does to be a reputable professor, a senator in Congress, or a college president. At the same time, it must be admitted that no uninspired man, whatever his ability, can understand, much more, safely teach, that which he has not studied. Neither scholarship, professional eminence, or observation behind the counter gives the requisite qualifications. One may be a skillful helmsman or navigator and be ignorant of astronomy, and *vice versa*. An astute lawyer, learned judge or useful legislator may know little of monetary science. Too conspicuous illustrations may be found in the speeches of bewildered congressmen and the decisions of benighted courts. True wisdom imposes silence, or at least modesty, at the point where knowledge ceases.

The confusion and diversity of opinion which find a lodgement in the common mind concerning money, have, for the most part, come from false and incompetent teaching. Mischief has been done by book-worm expounders and abstract thinkers, but far more by persons called practical or business men. So long as the multitude (the "talking" multitude) of the latter class, without reference to natural or acquired fitness, continue to be the trusted instructors of the popular mind, writing on its blank pages whatsoever they will, so long shall we have among the people crudity of thought, contradiction and misguided pernicious effort, all of which will find a resting-place in legislation.

Though on questions of currency, the facts which first meet the eye lie on the surface, there are others more recondite, more fundamental, which reveal themselves to the reflective faculties alone. These key-stone facts, to be understood, must be studied with the advantage of all the lights which the best thinkers have supplied. A new explorer in any field of science first endeavors to learn what has been done by other inquirers. It is folly (or worse) for any finite man, however learned and able, to neglect external helps, and attempt to excogitate from his own brain, untrained in that kind of work, a true theory of money. Yet this is done exultingly by those who have never learned the elements of Political Economy; who have not read a page understandingly of Adam Smith, Malthus, Ricardo, Say or J. S. Mill. It is not possible that anything but chaff should come from the intellectual throes of these persons.

To the thoughtful, Political Economy, to which the money problem belongs, is an attractive science. Its fundamental principles are more durable than the hills, and its reasonings and conclusions almost as exact as the demonstrations of mathematics. Step by step, under the guidance of a few master-minds, it has grown up within a century. A multitude of heterogeneous, apparently discordant facts have been reduced to order, classified and traced to their sufficient causes. All this has been done by trained workers—those who have been content to begin at the beginning, to forget their prejudices and conceits, to crucify their love of originality and invention, and to become patient, earnest laborers in a neglected field of inquiry. Accepting all that has been done by others, starting from the vantage ground the foremost have reached, they press forward cautiously, perhaps painfully, but surely, each adding something to the growing mass of knowledge. In our era, this is the course followed in all the sciences. He who pursues it may hope at least to comprehend what others have done. Raw recruits and three days' volunteers never reach this point.

The questions relating to money have been so long to a large extent in unskillful hands, and are so overlaid with error and rubbish, that it will be necessary to go back for a moment to first principles, and in the light of these, to examine the speculations and assumptions which have been put forth so confidently, and which at this moment are vexing and perplexing the nation. To be obliged to do this is not a little discouraging, but to him who would make himself understood there is no alternative. Preaching on this subject can have no effect till there be something like agreement as to those primary truths which underlie all our reasonings, and to which the last appeal must be made in cases of doubt. Having placed before the mind these simple, fundamental truths, and obtained for them that acceptance which is inevitable, it will be easy to go forward and correct mistakes—easy to overturn the card-houses which dreamers and our ten thousand teachers have erected. Standing in the light of these, it will be possible to bring forth order out of confusion, perhaps noon-day out of midnight. I do not mean that there will be no dark corners left, but the field of distinct vision will be greatly enlarged.

In setting forth the laws of monetary science, it may not always be convenient to ennumerate all the transient influences which may slightly effect results. My object in writing the following pages is to show the *tendencies* of recognized and controlling principles, sometimes overlooking momentarily disturbing elements.

Among rude peoples and in the early stages of society, commodities exchange one for another without the intervention of money. A spear, say, is given for an oar, two beaver-skins for a salmon, or a wigwam for a canoe. This is barter. In each case, the producer or proprietor parts with his labor, and expects to get as much in return, or in other words an equivalent. If gold be discovered, and become desirable for use or ornament, the owner must be paid current wages for the time spent in obtaining it. On no other condition will he bring it to market. In his just view, his labor is as valuable as that of the oar-maker or trapper, and should be as well rewarded. If others think differently, he will give up gold-digging, and follow some other occupation. As is the fact with all products, gold may be regarded as embodied and condensed labor having a fixed relation to other articles. If on the average, one day's toil be required to secure 23.2 grains of fine gold, this quantity will exchange for a day's toil in every other occupation, oar-making, beaver-catching, &c. Of course allowances must be made for exceptional skill and risks—All this is obvious.

In process of time, on account of its many advantages—its scarcity, portability, divisibility, imperishableness, &c., gold was employed as a common measure of value, as the yard stick was of length and the pound of weight. If a man had something to sell, he exchanged it first for gold, and then with that bought whatever he desired, taking care in each case to get as much as he gave. The great convenience of the practice—the having a commodity which in the market would be accepted by all, and the consequent saving of time and trouble—secured its general adoption. From the moment the glittering bauble was sought and held, not for its ordinary uses, but as a medium of exchange, it became *money*. At this point government came upon the stage, for the moment beneficently. To save the cost of weighing, proving, &c., and to meet more perfectly the wants of traders, small and great, it invited the producers and holders of gold to bring it to the mint and have it *coined.* It was divided into suitable pieces of determinate weight and fineness, stamped, named, made a legal tender, and returned to the depositor as coined money. The unit-piece of our currency, by a law of Congress passed in 1834, contains 23.2 grs. of pure gold, and is called a dollar. The government stamp is only a certificate and pledge of weight and fineness, while the legal-tender provision compels creditors to receive it for what it claims to be. It neither adds to or takes from its intrinsic worth. It is still the product of, say, a day's work packed in a convenient form; is the necessary equivalent of a day's work in the market, and will everywhere be received in payment for oars, spears, shoes, hats, coats, &c. Five thousand dollars will buy a house because the sum named and the house represent and contain each the labor of fifty men for one hundred days. They are commercial equivalents. No matter how complex the product, the aggregate of all the items entering into it will show its natural value in exchange. The fixed relation of one thing to another, which relative value establishes, cannot be changed by legislation. The law-makers may alter the forms, names and weights of the coins—may call a dime a dollar, or make one dollar into two or five—but they cannot cause 23.2 grains of fine gold to be given for more or less than the labor it contains.* Herein is one advantage of a metallic currency. In an important sense, it has a stable value determined by its weight, and not at all by the names it may bear. Once in possession, the holder may go to sleep with the assurance that it will not turn to ashes.

But the administrators of governments are needy, often crafty and depraved. They spend more than their income, and to eke out a living, sometimes resort to plunder and deceit. To benefit themselves, their retainers and supporters, they abuse the sovereign power, and debase the coinage. Though they cannot alter the intrinsic and exchangeable value of 23.2 of gold, they can

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* In all the products of industry, where society is at all advanced, the profit which is obtained for the use of capital is one of the elements of value. But profit usually bears but a small proportion to the other element, and may, without disturbing the reasonings, be ommitted. Accordingly, for the sake of simplicity, it is left out of the account in this essay. For the same reason, no reference is made to the effects of monopoly on exchangeable value.

put fewer grains into the coins. Having provided that "dollars" shall be legal-tender, they can, without changing the name, make four out of three or two, thereby reducing their indebtedness one-quarter or one-half, and robbing their creditors to an equal amount. (A pound of silver was originally coined into twenty English shillings; it is now coined into sixty-six shillings.) In this way, by a system of false naming, industry is deprived of its reward on an enormous scale. As the cheapest and poorest lawful or accepted currency is always used for paying debts, debtors with gleeful hearts take advantage of the change. Every man who lent dollars containing each 23.2 grs. of gold, and costing, say, a day's toil and sweat, is repaid in dollars of three-fourths or half the weight. Every laborer who bound himself in law to work one hundred days for one hundred dollars, and did as he agreed, receives payment for only seventy-five or fifty days. If a husbandman sold his corn, his cow or his farm, the merchant his merchandise, or the manufacturer his goods, made or to be made, and were not paid till the new dollar appeared, he is swindled out of a large proportion of his own. But this debasement of the coin would only affect those who stood in the relation of debtors and creditors. Its retroactive operation would be oppressive, but future contracts would not be embarrassed. He who had property of any kind to sell would ask and obtain for it as much gold as before. The practice however of making light coins is so plainly and contemptibly dishonest, that reputable governments are not now guilty of it. The more certainly to prevent it in future, they should be compelled, when possible, to stamp on each piece its weight and fineness, and to apply the name to none of a different standard.

Hitherto, very briefly, I have dealt only with foundation-principles, and the simplest elements of monetary science. They will not be disputed; but there are other truths somewhat more complex, logical inferences from them, and equally undeniable, which must be considered. That the derivative truths may be understood, the primary facts must be borne in memory, and at every step applied.

Coin, which is itself given for the commodities it measures, does not indicate values with quite as much certainty as the yard-stick does lengths, the pound weights and the bushel solid contents. Gold is not at all times the product of an equal amount of labor. When a day's work will produce more than

23.2 grs., production is stimulated, and depreciation follows. But the amount in currency and bullion throughout the world is so large that hitherto the effect of any increase has been very gradual. Since the remarkable discoveries in California and Australia, more than twenty years ago, and the gross addition to the treasure of the nations of, say, two thousand million dollars, it is estimated that in England gold has fallen in value twenty per cent, in New York much more than that, and in the neighborhood of the mines still more. A man who loaned "trust money" twenty-three years since at seven per cent, returnable in specie, has not probably received in interest more than five per cent, while the principal is not now worth more than seventy per cent of its former value. But recent events, on so large a scale, are not likely to be repeated, and the precious metals still remain, all things considered, the most perfect measures of value now possible. Nor would it be difficult to prove that they are the most economical. It is not true that they are unsuited to a brisk, enterprising, commercial people like ourselves. In the large cities, where the commodities of the country are exchanged, and trade is most active, there is little need of any other currency. In these places, expedients are adopted—banks and clearing-houses instituted—so that a much smaller amount of money, in proportion to the exchanges made, is required than any where else. By the agency of the clearing-house in New York, the banks of that city pay to one another, in ordinary times, one hundred million daily, by the transfer of less than three million in cash. In the smaller transactions of a rural population, specie as the sole currency is not inconvenient, but on many accounts the most desirable. No populous country in the world is so abundantly and cheaply supplied with precious metal as the United States. Yet we take the most effectual measures to drive it from our shores, and to deliver over, chiefly to our rivals in trade, all the benefits which in theory it is supposed to confer. For centuries, nations have been striving by custom-house restrictions and prohibitions to draw, each to itself, the treasure of the world; but we have been laboring with better skill and more success to get rid of it.

Under the impression apparently that the amount of money in use should be equal in value to the exchanges made within some indefinately short period, say a year, it is often remarked by the unthinking that "there is not money in *specie* enough in the world to do the business of the country," meaning thereby that other money is necessary to eke out the supply. Those who say thus, some of them governors or judges of our highest courts, forget that, of all the payments required in business, a vast majority, reckoned in dollars, is made by book-credits, bank checks and drafts, and that the same coin may pay a dozen debts in the same day. A rich people like the English, having a varied and complex industry, and doing an unequaled amount of business, are most economical in the use of a circulating medium. I suppose that Rhode Island, with its sixty-two banks, its active trade and nimble sixpences, does not employ in proportion to its exchanges, a tenth part as much currency as Texas. An extensive business then may not demand a very large circulation.

Again, it should be remembered that the efficiency or sufficiency of a medium of exchange has no connection with its quantity or volume, but depends solely on its value—in the present case on its cost in labor. To meet the pressing wants of trade, and perform the office of money, a certain value, in other words, a given number of days' work, is required, and this cannot be increased or diminished so long as the exchanges to be made remain the same. As only a definite number of transportation wagons can be used to carry to market a certain amount of goods, so only a fixed value in money can be employed to transfer the same goods from the producer or seller to the buyer. The cases differ however. The unused wagons would be left by the roadside to rot, while the superfluous money would temporarily become a part of the currency, swelling its volume without increasing (unless momentarily) its value. As value does not determine the sufficiency of the wagons, so quantity does not determine the sufficiency of the money. Money has but one essential attribute, and that is value—exchangable value. That it may perform its office perfectly, volume is no more needful than length or color. Unlike iron and coal and every other product, its usefulness is independent of any common quality. The name too is nominal, evanescent, but the value is real and permanent. In the business of buying and selling, coined gold is fifteen and a-half times more efficient than coined silver for the sole reason that it is more valuable in that proportion. If the mines become more productive so that a day's labor will secure more precious metal, say thirty grains instead of twenty-three and two-tenths, the weight of the dollar must be increased six eight tenth grains, or the coin will depreciate as compared with commodities whose cost has not been reduced—so depreciated that the larger whole will have no more value than the smaller had before. The two wholes will do the required service equally well. In case the weight of the coin be augmented, each man will carry more gold in his pocket, but will be no richer than before, and can command no more of the conveniences and luxuries of life. On the other hand, if the weight be not changed, each person will have more dollars than formerly, but will find himself no better off when he takes them to market. The poor fellow who happens to have been a creditor before the change—a creditor on account of labor—is indeed poor. He is obliged to be satisfied with 23.2 grs. of gold received at a time when the services previously rendered would command thirty grains. He gave say one hundred days' work, and gets the value of seventy-seven days. The wrong is no less grevious because there is no remedy.

It follows from what had been said that no industrious, willing people who have gold and silver mines of their own, or are in commercial intercourse with nations which have such mines, can be without a sufficient currency. This will be obvious when it is remembered that value not quantity is demanded. The need of gold, in other words the demand for it, will call forth a supply. No matter how scarce or difficult to be obtained, or what the cost per ounce, so long as it is to be had, and there is a market for it, it will come when called. One thousand grains will go as far as two thousand, provided they represent as much labor. Satisfying a nearly indispensable want, and bringing to the producer an adequate reward, the supply of gold can no more fail than that of iron or cloth. It is true it costs something. To obtain its benefits, a nation must sacrifice, or rather sequester, millions in labor, but the expense is little when compared with the facilities and conveniences it provides.

In one particular, gold as money differs from every other commodity. The demand ceases when a certain value has been obtained. More money may be coined, but the slight depreciation it will undergo will cause its ejection from the circulation. Its value in the arts and for exportation being undiminished, the surplus will quickly disappear. Dollars will not be paid out for goods when bullion is worth more than coin. Promptly they will go into the melting-pot, and any disparity which may have existed will be rectified.

Much has been said in recommendation of an elastic currency—one which will expand as the demand increases—and at this moment the brains of our statesmen and financiers are vexed with multitudinous ideas on that subject, and torn with the throes of a wondrous parturition. The notion of an elastic measure of value, in the popular sense, is like that of an extensible yard-stick or "rubber" bushel, and my impression is that we have had enough of that. I do not suppose it possible to invent a safe method by which every man, or even every solvent man, can, in a time of panic, have cash means enough to pay all his debts at the moment when due. The only elastic currency which an honest man should endure, or which pretends to be a measure, is furnished by specie. As in a tempest the winds rush toward the point of lowest barometric pressure, so in a money-crisis, the specie of the world flows in copious, life-giving streams toward the financial storm-center, filling a temporary void, and comforting the afflicted. We are now only ten or twelve days from the great treasure-stores of Europe, where there are hundreds or thousands of eager eyes watching the barometer in other lands, and looking for an investment. Goods will find no market, but specie may be sent with beneficent results and a telling profit. In the late panic in New York, the millions of gold which came pouring in from Europe brought no relief because our local currency, often expanding but never contracting, had "demonetized" it! When the vacuum in a specie-paying country is filled, the incoming stream is first arrested, then turned back; the precious, but now superfluous metal going abroad, seeking a better market, and it may be, relieving the violence of other panics. This perpetual ebbing and flowing, this flux and reflux, in obedience to the laws of attraction and repulsion, preserves a just equilibrium, giving to each country, according to its needs, its due proportion of the money of the world. Under the influences named, no people, if government will but stand aloof, can long be deprived of any part of the currency which their best good requires; nor can they retain more than their proper share. The to and fro movement by which stringency is relieved and reducency cured, usually quiet and decorous, but sometimes tumultuous, corrects inequalities, and gives us a nearly uniform standard of value.

A government, not deterred by the fundamental law—a law so plain that the courts of last resort can not disregard it—can make any thing legal tender—acorns, bits of leather or iron, or scraps of paper—and calling it money, and giving it the names the coins bear, compel creditors to take it in satisfaction of their claims. In this way a great wrong may be perpetrated—one class plundered and another enriched on an enormous scale, while the all-important connection between industry and its reward is shamefully severed. In our time, the thing which is made a substitute for hard money is the product of the paper-mill and printing-press. Pictured promises to pay dollars, called notes of circulation, are issued. They cost nothing, have no intrinsic value and contain no labor. If, however, they come from a source in which men have confidence, and are at all times and in convenient places convertible into coin, they will rarely be presented for payment, will become a part of the currency, and have the same exchangeable value as the coin itself. As an effect, this addition will depreciate the whole mass of the circulation, now part paper and part specie; at first slightly, afterward, if the additions be continued, more conspicuously. More money than before will be in the hands of the people; more consequently will be brought to market to be exchanged for goods. Increased competition on the part of buyers, and the comparative indifference of sellers, will be followed, according to the well-known law of demand and supply, by augmented prices. This appreciation is in truth owing to a fall in the value of dollars; but it is attended by enhanced, or seemingly enhanced profits, and succeeded by additional production. More labor is sought and more wages must be paid. This increased cost of production, if supported by further issues of notes, will sustain prices, while the eagerness of purchasers will continually advance them. Erelong, goods of domestic growth and manufacture become too high for exportation. The foreign merchant, who compares specie values in different countries, and is quick to learn where he can buy cheapest, goes to other markets. At the same time, imported goods have participated in the upward movement. They have risen in price and been quickly sold, filling the coffers of the importer. The latter, improving his opportunity, sends new and larger orders to his correspondents. Thus our markets and price-lists become irresistibly attractive to the foreigners who wish to sell, but repulsive to any who desire to buy. No fact shows this more plainly than the augmented imports and diminished exports. Constantly, during the inflation, specie is leaving the country, driven out by paper. It goes in search of a better market, and helps to pay a foreign debt. This movement is salutary—in the highest degree conservative. It depletes the currency, tends to drag down prices, and does what it may to preserve a just measure of value. But the outward flow is at first insufficient to accomplish the desired object, otherwise it would cease. In some of its aspects it is to be deplored, but it is the only thing which will compel the note-issuers to take in sail, and restore trade to its customary channels. Like the locomotive's whistle, it is the signal of danger,—a warning which, if heeded in season, will save a nation from disaster. Continue it must till its primary and chief cause, a redundant circulation, is removed.

But the credit-system provides methods for staving off the crisis. The banks (if these be the note-issuers) may be more conservative than the average business man, but the facilities they are unwilling to afford are supplied by private bankers and others. In the meantime, excitement, stimulated and upheld by the paper inundation, has taken hold of the people, and spreads over the land. Honest, plodding industry is discouraged, and thousands are tormented with the desire to become rich quickly. Tillers of the soil turn their farms into building lots, and take ventures in cunningly-devised schemes of wealth—in mining companies, petroleum-companies, South sea-bubbles and railroad swindles. Money-brokers, insurance agents and "traveling merchants" crowd the business avenues. Every where men are running up and down, "prospecting," trading, borrowing and giving questionable notes. The restless people continually buy and sell or exchange, cyphering out a profit on each transaction. Economy is scouted, and munificent expenditure applauded. New churches are built, towns "bonded," salaries are raised (or stolen), and the old-fashioned means of salvation and worldly thrift despised; while over-reaching, fraud, defalcation, peculation and bribe-taking are of frequent occurrence.

The day of reckoning at last comes. A foreign debt has been contracted, which cannot be paid in high-priced goods. Specie, which has been quietly leaving the country, and has now become comparatively scarce, is still needed by the importing merchants. To supply the demand, the holders of circulating notes present them for redemption. The scanty store of the banks is soon alarmingly depleted. The locomotive's whistle, long unheeded, has now a terrible significance. Those joyous notes, finest work of the engraver's art, when once redeemed, are carefully locked up, and a rapid curtailment in all directions is begun. At a time when maturing paper to be provided for is most abundant, when business is most expanded, and the wants of trade greatest, discounts are refused, and the accepted medium of exchange is largely withdrawn. For every dollar paid in specie, the banks find it needful to retire five or ten in their own notes, always doing as much in that way as their customers can bear without breaking. Distrust follows, depositors become alarmed, and reports of failures fill the air. In anticipation of a "suspension," every one wants to exchange bank-credit for gold on the same day. The upshot is a panic, and grown men behave like a crowd of children trying to escape from a school-house on the cry of fire. Fortunes melt away, and a whole community goes down in bankruptcy, the effects of which are felt in the remotest corners of the land.

Many of us remember the order of events as they occurred under the state-bank system in 1837, '39, '47, '57 and '61. This system was not so bad as that of an earlier or later period. In connection with the Suffolk redemptions, it gave for New England an uniform currency, every dollar of which, in ordinary times, was worth its face in gold. But it was not, as at the time claimed, "the best in the world," much more, the best possible. The banks (certainly in Connecticut) had practically the power of almost unlimited issue, and were constantly striving to push out and keep out their bills. They were only restrained by the unwillingness of responsible men to take and hold them as desired. The profit which was expected from an exchange of non-interest-bearing bills for interest-paying notes was a constant temptation to take inadequate security, which was not always resisted. The losses from this source, in certain quarters, were not without importance. There was an increasing flow of currency to and from the redeeming agency in Boston, each bank gathering up and transmitting at short intervals the notes of other banks, and receiving its own. Balances were paid promptly by drafts on New York. If any bank refused to take part in this arrangement, its bills were still redeemed, and an agent dispatched to demand the specie. The annoyance and frequent inconvenience of this demand brought the offender to terms. The cost to the remoter banks of the Suffolk system, and the loss on the permanent deposit which each was required to keep with the agency, to say nothing of the risks, were considerable. In times of stringency, when discounts were most called for, the bills, sometimes in unbroken packages, went tumbling into Boston, and the funds which had been usually lent to business-men were largely required for redemption. To meet this new demand, contraction was everywhere enforced. If an institution faltered, its notes were "thrown out" at the Suffolk. Too often in the end credit toppled over, and closed doors, suspended industry and financial ruin followed. Then came a period of stagnation, dejection, low prices, economy, discouraging profits and cheap money, sometimes lasting several years. The collapse which succeeded the crises of 1837 and '39 did not give place to moderate prosperity till 1844. Recuperation was usually more rapid.

The Suffolk system, among those who supported it, did not enforce specie redemptions, and therefore was not a safeguard against expansion. It preserved uniformity, made the bills of the remotest banks current at par every where in New England, prevented each from keeping out more than its proportion of notes, and did everything which the plan proposed; but good as it was, it gave no security against a general expansion and inflated prices. If each and every institution chose, on the same day, to increase its circulation ten per cent, there was no power in the Suffolk to restrain the movement. In the memorable crisis of 1837, when the Boston system was in full operation, when prices had risen twenty or thirty per cent, and wheat was imported from the Mediterranean, the New England banks found that they were carrying (notwithstanding the checks provided by the Suffolk) a dangerous amount of canvass, and like others were wrecked in the storm.

Under the old banking system, the country, most of the time, was going through a period either of inflation, high prices and speculation, or one of contraction, falling prices and exhaustion, followed by slow convalescence and returning thrift. There was little stability, not much certainty; prosperity was spasmodic, revulsions frequent, and success problematical. Though the currency were convertible, and coin could be had for it when nobody wanted it, the proportion of specie to circulating notes in the banks was ridiculously small—so small that an important failure like that of the Ohio Life and Trust Co., in 1857, a run upon a large bank, or anything which alarmed bill-holders or depositors, endangered the system. The moneyed fabric which hypothetically rested on gold for its foundation, was poised upon its apex, and fell with a crash when a few disks were taken from its support. It did well enough in fair weather when the elements were hushed, but went down when the winds were loosed and the earth quaked, wrecking the fortunes and hopes of half a continent.

A mixed currency, like ours before the war, consisting of paper and specie, may be greatly improved by increasing the proportion of the latter so that the removal of a few million to pay a foreign balance, or to allay the fears of an excited populace, will not enforce a severe contraction. The larger this proportion, the more may be removed without inconvenience and insecurity. But any reserve which it might be expedient to hold for extraordinary emergencies should be within the reach of the banks when most needed. In former times, the required proportion of specie to notes (one to ten in Connecticut) must be *kept*, and could not be used to redeem the latter without a violation of the law. Thus the only legitimate object of the legal reserve—relief in seasons of pressure and peril—was defeated. In its principle, the English system is doubtless the best extant or now possible. The Bank of England issues no notes under five pounds, (nearly twenty-five dollars,) making it needful that much specie should be in the hands of the people. Its charter does not allow it to emit bills exceeding fifteen million pounds (seventy-three million dollars) except it retain in its vaults an equal amount of gold. This gold, against which bills are emitted, is sacredly kept for the protection of bill-holders, and (as I understand the facts) cannot be paid to any other class of creditors. For its purpose, it has hitherto not proved inadequate. For the security of deposits (now much larger and far more important as a means of making payments than thirty years ago when the bank was chartered) there is, on the part of the institution, only a general liability; and this seems to be the weak part of the system. Its strong point is this: The bank can pay to bill-holders any part or the whole of its gold reserve, amounting to, say, eighteen million (eighty-seven and a-half million dollars) without taking from the people more money than it returns to them—more in paper than it give back in specie. It has no power to contract or expand the currency, but leaves this to be regulated exclusively by the wants of the public and the laws of trade—leaves it with all the *elasticity* (if this be the word) which specie, as the sole medium of exchange, could have. It is managed with consumate skill, and, in an important sense, upholds the moneyed system of Europe and the world.

No system—no possible system—can wholly prevent temporary fluctuations in the demand for money. These sometimes depend on physical conditions which lead to abundant or deficient crops; and may be connected with mental influences. Men are subject to excitements, sudden frights and periodical phrensies. These are contagious or epidemic; seize hold suddenly of a whole community, and overthrow the reason. At times they control conduct in all the departments of life, and turn this world into a bedlam. Human nature is made up largely of emotional, sensational and sympathetic elements, and should not be expected to exhibit prudence, common sense and good judgment, except intermittingly. The stampedes among the horses and cattle at the west are not more irrational than the panics to which human beings are liable. Until we find some certain means of forestalling these, we shall not always be able to control madness in the money-market.

After the adoption of the Federal Constitution, and up to a recent period, it was supposed that the general government, like the states, had no authority to issue paper money, much more to make it a legal tender. One of the objects of the convention of 1787 was to get rid of it as an intolerable nuisance. Rhode Island, which was profiting by its continued emissions to the anoyance of its neighbors, sent no delegates, and held itself aloof because of this known object. The convention tried faithfully to do in this regard all that was expected. Not only were the states inhibited, but it refused by a vote of nine states against two to give the power to "emit bills of credit," afterward, by a decision of the Supreme Court of the United States, January, 1837, defined to be "a paper issued by the sovereign power, containing a pledge of its faith, and designed to circulate as money." Till the late Rebellion, it was supposed—it was even a matter of self-gratulation—that we were secure against the possible, the oft-proved danger, of "paper issued by the sovereign power," "and designed to circulate as money," and especially against all laws making it a legal-tender. But the alleged necessities of a great war prosecuted professedly for the sake of the constitution and its supremacy, overthrew the barriers which our fathers, still smarting from the evil, had erected. The debate which followed the introduction of the bill authorizing the issue of treasury notes for circulation, and making them lawful-tender, was (and doubtless felt to be) a solemn farce. The tender provision was stoutly resisted in the senate, but in the house met with little opposition. Mr. Fessenden justified it on "the ground of absolute, overwhelming necessity;" others cared only to know whether it was "useful, convenient, profitable." Our colonial and Revolutionary experience, and the history of paper money every where, prove that the tender-provision—the worst part of the law—was in no way essential, and did nothing to prevent or even retard depreciation. In every point of view, it was a stupendous blunder. Its retroactive operation wrought profitless and gratuitous wrong on a prodigious scale. Had it not been for this oppressive provision, the sufferers would, long ago, have recovered their rights, and by legal process, at the close of the war, have enforced resumption, at least by the banks. They would have compelled Col. Scott's railroads and other corporations to pay their debts contracted before the war in dollars equivalent to gold, according to contract. Of the remarkable decision of the Supreme court of the United States reversing a most righteous decision of the same court, and of the extraordinary means used to procure it, I have an opinion which I shall not here express. History will speak of all in fitting terms.

On the fourth of March, 1861, the thirty-sixth Congress expired, not having made the smallest preparation for the now inevitable conflict which was to begin in April. Congress again met in July, in special session. Its business was to ratify the acts of the President, and provide ways and means to carry on the war. As in the Revolution, the thoughts of the government were immediately turned to paper money as an inportant resource. Fifty million in treasury-notes, receivable for public dues, and redeemable on demand in coin, were at once authorized and issued, to which ten million were afterward added. These were declared by the officials to be "as good as gold," "and for many purposes more convenient and valuable." The amount was large, but as the banks had curtailed their circulation, and mens' minds were gloomy and apprehensive, and indisposed to speculation, they produced no excitement, quietly became a part of the currency, and did not depreciate, even after specie payment was suspended, at the close of the year. The success of the experiment pleased the secretary of the treasury, Mr. Chase. He had been beating about among the capitalists of New York with indifferent success; had harried the banks, and after pumping them dry, driven them to bankruptcy. Very naturally, he sought relief from the embarrassment and humiliation of his position. Possessed, seemingly, of the prevalent idea that the war would end "in sixty or ninety days," he resorted to temporary shifts, was averse to long loans, paid reluctantly the market price of money, and was pervaded with a passionate and costly desire to save interest. The two hundred and two million, (one hundred and fifty million in the loyal states,) which the state banks circulated at the beginning of the year, with little cost and much profit, were looked at with envious eyes. As the result, on the twenty-fifth of February, 1862, Congress authorized the emission of one hundred and fifty million of legal-tender notes for circulation, sixty million of which were to be used to take up the outstanding gold-notes. If report is to be trusted, however, the insertion in the act of the tender-clause was opposed by the secretary. On the eleventh of July following, more money was wanted, and one hundred and fifty million new notes were authorized, fifty million to be reserved for the payment of temporary loans. Another installment of one hundred and fifty million of the same notes, for the payment of the army and navy, were ordered on the seventeenth of January and third of March, 1863. At the last named date, Congress also provided for the issue of four hundred million three year, legal-tender, interest-bearing notes, convertible at their face value into legal-tenders of previous issues. In this manner the work went bravely on—eight hundred and fifty million of paper money in one year and six days! The whole of these amounts were never issued, while the compound interest notes, after remaining in circulation till considerable interest had accrued, were withdrawn and held for investment.

Mr. Chase, the great finance minister of the war, indefatigable and incorruptible in the midst of corruption, was fertile in expedients, ingenious in his methods, sincere and always plausible. But he was infatuated with the desire "to place" his five per cent loan, and hesitated not to sacrifice two dollars in the cost of war-supplies to save one in interest. Incalculable was the injury which this insane policy inflicted on the nation. Though professedly alive to the recognized evils of inflation, in order "to float" his five per cents, he used his optional power, and persisted in pushing out his legal-tenders in the most reckless way, till impending ship-wreck stayed his hand, and the country became alarmed. When less than seventy-four million of his favorite loan had been placed at par, and after Congress had endeavored by a foolish law of thirteen days' duration to check the "rise" of gold, then at one hundred and fifty-four per cent premium, he felt constrained, June 13th, 1864, to resign his office. On the same day, Congress, in a new loan-act, pledged itself to the people in this wise: "Nor shall the total amount of United States notes issued, or to be issued, ever exceed four hundred million of dollars, and such additional sum, not exceeding fifty million of dollars, as may be temporarily required for the redemption of temporary loans." The war closed with four hundred and thirty-one million of greenbacks outstanding, which amount was soon reduced to the legal limit. But the national banks were allowed to go on expanding the currency, carrying the total of their issues from one hundred and twenty million, at the end of the war, to three hundred and thirty-eight million in April, 1873. The fractional notes are now nearly forty-five million of dollars.

The legal-tender issues authorized in February, 1862, began to make their appearance in April, when gold stood at one and three quarters per cent premium. Business was generally stagnant, and there was little demand for them. Existing obstacles soon gave way, and erelong their proper effects in the usual order began to appear. First gold and bills of exchange moved upward. Then the sounder bonds and stocks, such as prudent, suspicious men buy in boisterous times were effected. Still later, the stocks of second quality, and the goods produced and consumed within the year, felt the stimulus. Not long after, other goods and real estate in the commercial centers commanded better prices. When another interval had elapsed, securities of uncertain value, and property which had long been unsalable, found a ready market. As dollars became more plentiful and prices more and more buoyant, men got excited, and a spirit of speculation was engendered. Each had more pictured promises in his pocket and a larger bank deposit than before, while those who were usually straitened were in funds. The competition of eager buyers gave sellers an advantage long coveted. Having, in existing circumstances, no usages or precedents to guide them, with no knowledge of the real value of property in current money, they were only anxious to fix the prices high enough. All engaged in making or exchanging the goods or estate most in demand were apparently getting rich. This of course intensified the excitement, and led to changes of occupation. As is always the fact, wages, for a considerable time, did not keep pace with other things. Laborers received as many dollars as before, but when these were exchanged for coats, shoes, fuel, provisions, &c., the money did not hold out. They consequently suffered deprivation. In the meantime their employers—manufacturers, railroad companies, mining companies, &c., while producing at former cost, and selling at current rates, made large gains—gains which took nothing from the ample shares of contractors, merchants, and middle men of every name. At length the augmented demand for labor caused by the increased demand for commodities was followed, always with an interval, by better wages. Then laborers like others got more dollars, and in the end as much purchasing power, as previously. The enlarged consumption of goods, and the extravagance which a redundant currency always produces, required additional production and more work. This new work must needs be paid for, and the laborers too became prosperous. Tardily and lastly, the advancing tide of paper-mill prosperity reached—no approached—the country farmers—the owners of farming lands. At the close of the late war, farms in the agricultural districts within my acquaintance would sell for no more dollars than before. If our husbandmen received more in currency for butter, eggs, poultry, and other articles which could be conveniently transported, they paid more for every thing they bought. Even now, ten years after the flood, (or after the flood was highest,) their farms will fetch little more in depreciated paper than they would bring in specie (or its equivalent) fifteen years ago. The thrift (such as it is) which inconvertible greenbacks have brought to the cities and business centers has not yet reached them.

The effects of paper inflation may be set forth in this way: A man in the second year of the war filled his stores with goods, kept them under lock and key, and at the end of the year sold off enough to pay his notes, and made a fortune out of the balance. At about the same time, a lumber merchant of this city purchased his annual supply of lumber, and as was his custom paid cash for it. When the year closed, he had apparently made a good profit, but the money and notes received would not buy as much lumber as at the beginning. Then he went into the market and bought largely on credit, giving long notes. His next balance-sheet showed an extraordinary gain, not in money merely but in purchasing power. After some costly experience, the holders of property learned to sell for cash only, so that when the war closed shrewd business men were generally out of debt. The flagrant wrong which excessive paper issues inflict may be illustrated thus: In December, 1861, a poor soldier's widow put into the savings bank two hundred dollars in specie, and then removed with four young children and friends to California. In July, 1864, when gold stood at two hundred and eighty, she sent for her money. In return, she received a gold draft for eighty-three dollars, accrued interest at six per cent included! An instance (one of a class) of similar but greater injustice caused by "continental money" is related in Gordon's History of the American War. It illustrates a principle.* "A merchant of Boston sold a hogshead of rum for £20, hogshead included. The purchaser did not settle for it till after the seller applied to him for an empty hogshead, for which he was charged £30. When they came to settle, the merchant finds upon examining, that he had to pay a balance of £10 on that very cask, which, with the rum it contained, had been sold for £20."

Except in a qualified and peculiar sense, money is not capital. It has no direct agency in production; does not enter as a constituent part into the products of industry, like iron or cotton. Of itself, it produces nothing; brings no gain to the holder. What is called interest is earned wholly by capital, and is paid exclusively out of the profits of the latter. He who has money, and wishes to obtain an income from it, exchanges it without delay for capital. The exchange once made, it has discharged its last office, and goes into other hands to perform a similar service. For the purpose of hoarding, without reference to use, it is worth no more than any other measure, say a bundle of yard-sticks. Mr. Chase, in paying out his greenbacks, supposed he was pouring capital into the country, while he did not so much as add to the value of the circulating medium, (always unproductive,) as shown in another place. His four hundred million took from the value of the whole circulation, old and new, a sum equal to the additional volume.

* I have referred to this in "A Historical Account of Connecticut Currency, Continental Money, and the Finances of the Revolution, published among "Papers of the New Haven Colony Historical Society," in 1865.

To set forth in the clearest possible light the nature and effects of Mr. Chase's measures, I will suppose that the country had in circulation, in January, 1862, (no matter what the sum,) four hundred million of dollars, specie value, all needed for the legitimate business of the people. I will again suppose that the several new emissions, amounting to four hundred million, were made on the same day; that no currency was driven out of circulation, and that the effects, instead of being spread over several years, were everywhere immediate. There would then be, with the additions, eight hundred million of depreciated paper to do the work of the previous four hundred million, and having the value of four hundred million in coin. By this stroke of policy, the secretary made a forced loan, and got control of two hundred million, specie value, paying for it no interest. Now let us see what (on the supposition) followed. The four hundred million is paid out to the government creditors, mostly to soldiers, sailors and others in the public service. As two of the new dollars are worth no more than one of the old, and will exchange for no more in the market, (all commodities having doubled in nominal value, according to a law already explained,) the government creditors get but the half of what was their due, and are thus cruelly wronged.

Thus far the loss has fallen wholly on one class, and does not exceed the gain the government has made. But there is another class, much larger, which is still more deeply involved. The new notes are a legal-tender, and every debtor is authorized to discharge his moneyed obligations, dollar for dollar, with a much depreciated medium. The law says to him: "Notwithstanding you agreed to pay dollars which contained each 23.2 grains of gold, or ten hours work, you are released when you have paid dollars (half dollars) which are the equivalent of 11.6 grs., or five hours work." The agreed measure of value has been, thoughtlessly or wickedly, changed by the sovereign power. The creditor may well say: "My hard earnings, perhaps the accumulation of a life-time, my dependence and that of my family in causualty, sickness and old age, have been ruthlessly wrested from me—wrested by a process of legerdemain which it is difficult to understand,—and there is nowhere any compensation." He has placed his all in the savings bank, or a trust company, or had bought a little bank-stock, or a railroad-bond, or exchanged his cow or horse or farm for a mortgage note, and while he slept, his government, instituted for his protection, and administered by his chosen servants, has bereft him of half his property, perhaps made him almost a pauper. Possibly he would be content had his sacrifices helped to save the institutions once dear to him, but of consolation from that source there is none.

While creditors feel that they have been unrighteously dealt by, debtors are jubilant. They have reason to be. By a stroke of the pen, wielded in their behalf, they have secured the possession of a large part of the capital of the country, the title of ownership to be enforced when, in substantial violation of the agreement, they have paid for one-half of it! Without industry, or economy, or good management, or any sacrifice, they have acquired in an hour more wealth than others have obtained by the toil and sweat, the wear and tear of many years. Creditors as a class are (or used to be) laborious, prudent men, who use their means productively, wasting nothing. Were it otherwise, they would not be creditors. They employ their accumulations in building and equipping factories, ships, steamboats and railroads; in erecting houses, improving lands and feeding laborers. In no other way could they make a profit. Their savings constitute the fund, the only fund, for the support of labor. The whole of it, directly or indirectly, expenses excepted, is paid out for wages. On the other hand, debtors as a class, are less industrious, economical and vigilant; do not manage as intelligently and prudently, and are more given to scheming and wild speculation; otherwise they would not be debtors. Possibly they live beyond their means —are perhaps extravagant and negligent. They may be hard-working, temperate men, useful and worthy members of society, bearing cheerfully their share of the burdens of civilized life, but for some reason, perhaps not apparent to themselves, they have not the thrift of others. The net profits of their business go to pay interest on borrowed capital; or if they save anything in prosperous seasons, to be used in hiring more laborers and paying more wages, the sum is small and uncertain. Of course I do not speak of the general intelligence, honesty or virtue of the respective classes, but view them from the stand-point of economic science, or as contributors to the wealth of the nation. It cannot be doubted that every material interest in this country, to say nothing of private and public right, requires (especially in times of unusual strain, when the demands of a great war must be met) that capital should continue in the hands of those who have earned and preserved it, and will employ it skillfully and profitably for the support of productive industry. To a large extent, for many years, it has been in other hands, placed there by act of Congress, and those handsomely engraved instruments of transfer, vulgarly called green backs. Nobody can tell the precise amount, but hundreds of millions certainly, were thus transferred.

On the supposition that the effects of the paper expansion were immediate, the sums transferred would be equal to the one-half of the entire indebtedness of the country to be paid in legal-tenders (deducting any compensations which creditors might receive). Nor would the amount be necessarily diminished by the fact that the government notes were issued in installments, or that the loss was in many cases shifted from one to another, and distributed among a larger population, and spread over a considerable period. If the depreciation were less than the proportion supposed, allowance must be made for that. In any event, the losses and gains were, in their aggregates, enormous. The owners of permanent indebtedness alone; the holders of mortgages and bonds of different kinds, state, county, town, city and railroad, to say nothing of the public creditors, were impoverished several times more than all the government gained. This cancelling of obligations, making debtors half owners of the vast amount of property which they had bought but not paid for, giving them sudden but unexpected and unearned riches, produced of course the greatest excitement. To speculators and gamblers, a novel and wonderful avenue to affluence was opened. Colossal fortunes were acquired, while the new proprietors, unused to so much wealth, scarcely knew what to do with it. Extravagance and visionary schemes; palatial residences, country villas and splendid equipages; mammoth hotels, crowded steamships and activity everywhere, were the legitimate fruits. When men operate with other people's money, with no restraints, business is always lively, enterprise rampant.

All the seeming thrift which follows a currency-inflation may be traced to transferred wealth. It will last as long as the fund which sustains it. When this is gone, men recover their senses; industry, frugality and good conduct in business receive their just reward, and property returns, by a slow and painful but certain process, to its original owners, or their successors. There it will remain till a new inflation (agrarianism by another name) redistributes it, again giving it, or much of it, to speculators, perhaps to the winds.

In specie-paying times, there is a fixed, or slightly yielding limit, beyond which circulating notes cannot be pressed. Convertibility and a call for coin will check and force back upon the issuers any excess. But under the reign of inconvertible paper, there is no similar limit. Eight hundred and eight thousand million may be circulated with equal ease. Once a part of the currency, the excess will remain, having no way of escape. Bill-holders are helpless, and there is nowhere any self-controlling, self-regulating power. The locomotive's whistle, serving in specie-paying times as a storm-signal, is not only not heard, but it is not sounded. Nor will redemptions of bank notes with greenbacks, at central points, have any tendency to preserve the limit and prevent the depreciation of both, unless indeed, legal tenders be greatly restricted—much more so than now. When prices have been adjusted to volume, however large, every dollar will be wanted, and there will be (as compared with the new prices) no redundancy. As already explained, the exchangeable value of the whole will not be increased, the units shrinking in value in proportion to the additions made. This degradation of money, whether by abstracting gold from the coins, or by excessive emissions of paper, destroys its usefulness as a measure of value, and makes it an instrument of injustice and oppression. Far better would it be if government provided no measure, and left the people to their own devices. To set up a standard, force men to use it, and then falsify the pledge given to those who put their trust in it—committing, perhaps, their all to it—is more heathen than Christian. As justly could the yard-stick be shortened by law, and all those under contract to receive yards at a stipulated price be compelled to take new yards for the old ones without any deduction in price. Indeed, the wrong in the last case would be of a mitigated character from the fact that the dealers in cloth, &c., are comparatively few, while in the other case all dealers are equally affected. One man who is forced to accept half-yards, or half-pounds, or half-bushels, or half-acres for whole ones, is no more injured than another who must take half for whole dollars—five hundred grains of coined gold or their equivalent, in discharge of a debt for one thousand grains.

Among others, a well known bank president of New York thinks we have not currency enough to do the large business of the country. I have no doubt he thinks so, but he mistakes the nature and functions of money and the source of its efficiency—mistakes volume for value. If the currency be insufficient, it is because prices are too high—so high that the circulating medium is absorbed before the needful exchanges have been completed. But prices are just what a full currency has made them. They follow the latter as faithfully as an effect does its cause, or a shadow its substance. They would be still higher if money were more abundant, while the latter would be no more plentiful after prices had risen. The many who believe that they now pay more than they should for coal, meat, rents, hotel fare, labor, &c., are inconsistent when they call for more paper currency. Relief can never come from that direction.

There are those who deny that our greenback-dollar is depreciated. If they will ask themselves whether a dollar now will purchase as much of the products of labor, or go as far in building a house, or in the support of a family, as it did before the war, they will see their mistake. Every commodity may be used as the measure of every other commodity, and even of money itself, and when any one will exchange for less of every other, when no special causes have been at work, the inference is inevitable that that one, for some reason, has been cheapened, or in other words, is depreciated. The fact that the dollar of to-day is the equivalent of only twenty grains of gold, instead of twenty-three and two-tenths, ought alone to be satisfactory evidence of this.

Too often the persons who call for inflation are crafty speculators who want the property they have bought without the return of an equivalent, and desire more greenbacks to authorize the transfer. None but those who owe, unless by indirection, can derive the least benefit from it. Not a shilling is added to the wealth of the country. Each man's possessions will exchange for no more of those of others, or no more value, than before. Those most importunate for more currency would not be helped by any number of new dollars which should be worth as much as those already in existence. If the latter be the equivalent each of twenty grains of gold, and they can obtain others worth but twelve grains, each "legal tender at its face," they are lifted out of the mire, perhaps made rich. Ought any enactment which grants the unrighteous request of these men to be commended? Instead of adding in this way to our already superabundant paper money, placing in the way new obstacles to resumption, had not Congress better " make a clean breast of it," reduce the weight of our coins, putting twenty grains of fine gold into the legal dollar? Then paper in its present volume would be equal to gold. Prices would not be disturbed; there would be no necessity for contraction, and no difficulty in immediate resumption. Once again on a specie basis, every note or obligation promising to pay money, would probably contain, at the instance of the holder, the clause "payable in United States coin of the present weight and fineness, or its equivalent." As I understand the decision of our courts, this promise would be enforced according to its terms, and we should be raised from our present prostrate and humiliating condition. It is true, this degradation of the coin is disreputable; nations desirous of a good name do not practice it. Nor would I recommend it; but it is no worse (though the wrong may be more apparent) than the degradation of the medium of exchange by paper issues. To go plunging on in this reckless way to perdition is not to be endured, if escape be possible. Whatever in our desperation we may be tempted to do, it is to be hoped that we shall not repeat the greatest mistake of the war by passing laws which impair the obligation of contracts, making dollars of light weight legal tender for those of full weight.

Above all our present monetary needs, we want a fixed measure of value; one in which business men can place confidence; one which will make the dollar of to-morrow, of next week or next year, equal to that of to-day. We want it so that a trustee or guardian can invest without loss the funds in his keeping. Thus protected, the people can enter into engagements with safety, knowing what they are to receive and how much to pay. Congress would not then be besieged by contending and interested parties asking for extraordinary legislation.

But whatever is to be done in the way of reform should be done quickly. At this moment, the secretary of the treasury, a subordinate in the government, on his own responsibility, and in defiance of the declared opinion of a committee of the Senate, is exercising the highest function of the sovereign power, and daily pouring more than half a million into the swollen flood of legal tenders. Serenely he sits, his implements by his side, chipping off the yard-stick, chiselling bits from the pound-weight, and forcing up the bottoms, or battering down the rims of the bushel and gallon-measures. When his present work is done, and the forty-four million emitted, he will have added, say, five per cent to the currency. It is to be feared that this new inflation will be permanent. Should it be, and should our railroad companies pay all their debts (now amounting, it is said, to two thousand million) in government notes, and should they not pay till the full effects of the inflation are felt, they alone will have gained, at the expense of their creditors, one hundred million of dollars! The whole (domestic) indebtedness of the country is estimated by Senator Fenton, in his recent able speech on the currency question, at twelve thousand million, five per cent of which would be six hundred million dollars! The new depreciation will make the greenback-dollar the equivalent of nineteen grains of pure gold, and nineteen grains, besides alloy, must be the weight of the hypothetical (not proposed) new unit-coin.

One thing is certain. If there be any truth in enonomic science and the reasonings of this essay, specie payments can never be resumed and maintained so long as coin is at a considerable premium, currency redundant, and prices at their present level. Nor can any legislation or any scheme correct the disparity which does not contemplate the partial withdrawal of circulating notes. No plan yet proposed which would not lead to this, either immediately or as a result, can be effectual till the demand for value in the currency is greater than now. We had better face the difficulty here than deceive ourselves longer by plausible but deceitful schemes. Suppose the United States treasury should adopt the plan often proposed, heap up gold to the extent, say, of four hundred million, and then in one day or one week redeem the whole issue of greenbacks. By this process, the remaining paper (bank-notes) has been raised to the level of gold, prices have not yet been disturbed, and resumption is effected. But mark what follows. The four hundred million in gold, worth, say, twelve per cent premium, have taken the place of the same amount of depreciated greenbacks, and thus added to the circulation forty-eight million. To that extent there has been, on the supposition, an inflation, but the country has been placed on a specie basis, and at once resumes its old relations to other nations. If the currency were redundant before, it is still more so now, and that movement at once begins which is designed to cure it. The superabundant gold, undervalued as it is, flows outward in search of a better market. This flow continues till prices have been reduced, and the currency sufficiently depleted. No more will be left than naturally belongs to the country, and no more than would remain had legal-tenders been withdrawn and cancelled, one by one, as convenience permitted. Whatever the method, the result will be the same, if it be effectual.

The Money Problem Again.

I.

Money—What is it? What gives it exchangeable value? Prevalent Errors.

Money is the exchangeable equivalent of all property and services, and has a double function. It acts as a medium of exchange, and as a measure of value, its qualities as a measure fitting it for use as a medium. *Any substance or thing, passing from hand to hand, which is capable of discharging this double function, (whether quite perfectly or not,) and has been set apart for that service, with the full consent and active support of those who need its assistance, is money.* It is one of the elemental forces of Political Economy, in its office and purpose unlike any other, and standing by itself. Of course it is not a commodity; does not become merchandise till it ceases to be money; is not bought and sold like goods in the market; does not of itself satisfy any physical want; is not designed for consumption, and when exercising its allotted and peculiar function does not like capital reproduce itself. It may be the product of labor, but labor is not its essential constituent, while its peculiar endowments are derived from another source.

A wonderful instrument or device is money. In its more perfect form, the slow growth of the civilized ages, it is given by the buyer and taken by the seller because it facilitates the exchange of products, saving much time and labor. It is a human contrivance (called, not happily, a *tool* by Bouamy Price) employed to diminish the friction, waste and delay attending the distribution of wealth. In effect, it is like oil applied to the machinery of trade. It saves time, power, patience and traveling expenses; increases the net products of industry and commercial enterprize, and secures exactness, certainty and mutual gain. Through its instrumentality, the heavy charges incident to the transportation and transfer of goods—of getting them from the producer to the consumer—are reduced to a minimum, and the cumberous, devious method by barter superseded. It opens an improved way, as it were, to the exchange market; indirect, it may be, but more quickly traversed and vastly easier than the old one—a way which goes by a newly found cleft through the mountain instead of over it. Without its agency, our present elaborate and diversified industry, with its divisions of employment and multiplied products would be impossible. More and more as invention and the mechanic arts are introduced and perfected do its benefits become apparent.

Money when analyzed, or viewed as money and nothing more, may be regarded as a receipt, acknowledgment or voucher—a certificate of admitted authority—the denomination indicating the amount. It signifies that the bearer has parted with his earnings or savings, and is entitled from those in want of it to as much in return. It is an order for goods or other property, or for labor and services which none desiring an exchange will refuse. He who gets it obtains the equivalent in purchasing power of whatever he may have relinquished. If a man have wheat and would exchange it for cloth, he sells it for money as the readiest, most economical way of obtaining the cloth. He does not want the medium except as the most effective means of getting something else, and would not take it but for this instrumental use, as it would lead him away from instead of toward his object. On its surrender in payment for cloth, its mission, so far as he is concerned, is ended. It has helped him to get the desired equivalent of his cloth, and now his claim is satisfied. The draft goes into new hands to be held for a similar service. To the parties in a bargain, it serves as a light-running vehicle for the transfer of commodities. Or it may be likened to a mediator and go-between, having a lifting or tractive power equal to its exchange-value, and sufficient for any emergency. Because it does much excellent work cheaply and with dispatch, it deserves the name of a labor-saving instrument. Except as an implement reserved for a single indispensable service (in which service it changes hands), it has not the smallest attractions except to the curiosity-hunter and the miser, and can be turned to no enconomic or intelligible use. The charms with which the popular mind has invested it are wholly due to its association with unnumbered forms of material good. Hoarded, it is no more useful, perhaps no more ornamental, than an assortment of yard-sticks or gallon-measures. Its undoubted benefits, the fruits of its friendly offices, are not secured till the owner has parted with it.

Were the rogues (including counterfeiters) all throttled, any thing easily handled might become money—shells, stones, chips, bits of leather or paper, etc. Whatever its material or form, its circulation, as a medium of trade, will be found, when the case is critically examined, to depend solely on *consent*—a mutual agreement, tacit if not formal, among the holders of property and services to accept it as the money of the country. Consent on the part of giver and receiver confers the special endowment which distinguishes it from everything else. Having this endowment or quality, chips or rags may become money. Without it gold and silver coins are mere merchandise. Sustained by consent and general acceptance, money cannot fail. Cognizant of this fact and confident of safety, every business man unhesitatingly receives it, knowing that by doing so he becomes a creditor in the market—acquires a general purchasing power equal to any he may have relinquished, and far more available. With it, he can command, in definite amount, any thing for sale which fancy or necessity may prompt him to buy. So conspicuous are its advantages that the merchant lays hold of the first chance to exchange for it any part or the whole of his stock in trade, satisfied that he obtains that which will not only replenish his stores, but yield a surplus called profit. The conventional medium does for him and his business all which it is possible for money to do. He wanted exchangeable value, in the most current form, which would not come to naught at a critical time, and this he has got. For a special service, he sought an instrument the most effective known—one that would do its work perfectly without wear or waste, and has obtained it. What more can he ask? For his use it is not important what its material, its form or color; whether it be the product of labor; whether it be the substantial, as well as exchangeable equivalent of his goods or wares; whether or not the coin may be obtained for it, unless, indeed, that fact should make it more valuable as merchandise than as currency. He may not know who the issuer may be, or whether solvent; whose seal or promise it may bear, whose faith or credit pledge, or what the sovereign power may have said or done. If it have a known value in exchange, and be every where current, no matter whether it be hard or soft, yellow, white or green, it is the thing he needs. As an instrument or medium, as a receipt, order or accepted draft, the wealth of a continent "behind it" and upholding it would make it no better. With the strength derived from consent alone, it has all the lifting and tractive power required for the easy and rapid interchange of commodities and services, and any new or additional force (were it possible to impart it) could not be utilized. Erelong, no doubt, we shall be able to throw off the delusion that a currency which meets all the requirements of both buyers and sellers—of the producers, distributors and consumers of wealth—needs adventitious support, or bolstering of any kind.

I have been writing of money in its simplest, most elementary form, chiefly of money as a medium of exchange, divested of non-essentials, and having no intrinsic value. When stripped of everything not a needful part of it, and the nucleus only remains, it will be seen that consent—consent of those who give and those who take—is its elemental principle, the source of the confidence it inspires, and its usefulness as an economic force. An instrument thus endowed has marvelous power, and is fitted to move the world of wealth and industry. Without consent, it is impotent and worthless. Withdraw it when once given, and the "best currency in the world," however fortified, loses its peculiar virtues, and ceases to be money. Deprived of its support, specie itself could not discharge its customary office. It would be merchandise requiring money for its transfer.

I have endeavored to show that money derives the special quality which fits it to act as a medium of exchange from consent. But the world takes a different view. Without the smallest show of reason, Prof. Price affirms that "coin, metallic coin, alone is true money, and nothing else is." Others suppose that, in this matter, the government is all-sufficient, the fountain of power, and persuasive beyond control. "That is money," says one, "which the law declares to be so." But suppose the people, usually submissive, in a preëmptory way dissent. The law is mighty, I admit, but it cannot compel one man to sell to another his horse, merchandise or labor for some specific thing which the latter does not want or prefers not to take. So said sturdy Jacob Collamer, in the United States Senate, when the legal tender iniquity was up for discussion. In this matter, if constraint be attempted, the owner of property will circumvent the statute by having nothing to sell. He may submit to robbery under protest, but will not be a party in a bargain which proposes this as an end. A sufficient penalty, in a particular case, if the person be timid, may secure conformity, but the needed consent (which is an act of volition), and the confidence flowing from it cannot be forced. This fact the statesmen (so-called) of our colonial, Revolutionary and more recent history were slow to learn, and never fully understood. During the war of the Rebellion, Congress attempted many impossible things, but it was not foolish or absurd enough to try, perforce, to make its tender-notes the common medium of trade. Dishonestly, it set aside the old standard, made them the lawful measure of value, compelled creditors to receive them in satisfaction of their claims, and inflicted unmeasured wrong in that direction; but to this day every man is free to take or refuse them in exchange for his houses, lands, goods or services. The monstrous wickedness of the bill as a whole leads one to fear that any forbearance on a minor point was not due to an unwillingness to do evil, but to practical difficulties felt to be insurmountable. When, at a later period, our law-givers essayed to limit the depreciation of greenbacks by regulating the traffic in gold, the first words of indignation were drowned in a general guffaw, and the act was incontinently repealed.

It is idle to contend with Mr. Price that "coin alone is," or with others that the greenback is not "true money." The two exercise the same function, do the same work with equal dispatch, and expedite trade in the same way. They differ only in matters which are not essential, and which do not relate to their office. The differences are made sufficiently prominent when one is called hard, the other soft, one metallic the other paper money, etc. In the genuine sense both are money, as the language which usage sanctions implies. They are varieties of the same thing, fundamentally and essentially one. Of two dwellings, one of brick the other of wood, one yellow the other green, it is not the custom to deny that both are houses. I do not think it possible to frame a just definition of money which will include coin and exclude the greenback. If the latter be not money pray what is it? Have we been living (most of the time very fast) for fifteen years almost without money, a feat hitherto thought impossible? During this time the products of industry and property of every kind, to an enormous extent, have been bought and sold, and the needful payments made. What name shall be given to the common medium of trade which has been instrumental in this work? Will you follow certain precedents, and call it *currency?* Then please say what is meant by currency, and so define the term as to exclude coin and include the legal-tender, and all those devices, exercising other offices, which are used as substitutes for money, like checks, drafts, and bills of exchange. The latter, though conveniently called cash, or cash funds, cannot properly be embraced in the same category as the greenback. They do not "pass from hand to hand," do not *circulate*, but go directly from the drawer to the drawee for payment. They are never the standard of value, but suppose a standard by which they are themselves measured.—In this paper I have usually employed the term currency as synonymous with that of money, in accordance with the best usage.

The legal tender part of the law authorizing United States currency notes gave no strength to the greenback, as an instrument of exchange. It did not, in the way expected, prevent depreciation or delay it. As a medium, the notes needed no special legislative encouragement, and especially no coercive appliances. Buoyed up by the circumstances of the time, and a passionate longing for innovation, they had sufficient vigor (popularity) of their own. The banks were suspicious for a short period, perhaps because their own circulation would be curtailed, but business-men and the people at large hailed them with enthusiasm, and, in exchange for their products and labor, accepted them with a welcome, as they would have done with inferior inducements. Said one, brimming with excitement, "even the children cry for them." Before there was much depreciation, and before the tender provision had been generally thought of, or could have had any practical effect, they had obtained a firm foot hold. In more ordinary times, when patriotic motives do not abound, and public opinion may be safely ignored, it is not difficult, under favorable circumstances, to obtain the acceptance, as a medium of exchange, of almost any kind of money which has a plausible exterior and promises energetically. The people are naturally disposed to be easy and courteous in this matter, and will receive from their customers, employers and friends anything by which the end sought—exchange of commodities and services—may be attained, without personal risk or loss. If a man have shoes and want hats, he will take in payment whatever the hatter will take, and never hesitates when assured of that. All others in like circumstances will do the same. Consent then, to whatsoever it may attach itself, will make a proposed medium good money in all commercial intercourse between the consenting parties. Nor would it be necessary to call on the government for any assistance except to give the sanction of law to the customs and usages of merchants and business-men. Certain superserviceable legislators may feel chagrin that the people should be able to help themselves in a matter they have been pronounced dependent on the bounty of the government, and in their private capacity helpless; but those who desire to live honestly by their own efforts should rejoice.

A government with large receipts and expenditures may, without the use of law or the least constraint, exercise (sometimes legitimately) a great if not controlling influence over the currency. Paper which it issues, and makes receivable for public dues, creditors will cheerfully accept to a limited extent, though not redeemable in coin, and never intended to be paid in cash. It passes through several hands perhaps, and is then received into the treasury to be again disbursed. It thus obtains a sure circulation, more or less general, and does not depreciate as compared with the money of the country, unless supplied in excess—in excess of the wants of those who make payments to the government. Of this kind were the sixty million United States demand notes, after the government failed to redeem them in specie, in the beginning of the late war. They were receivable for customs, and were at all times as good as gold. Those that remained in the hands of the people maintained their ground when greenbacks were greatly depressed, at one time worth but thirty-five per cent. of their face. Banks of discount and deposit, of good reputation, are the centres of a similar influence, and can, by concerted action, exert great power. Usually, whatever they are willing to lend borrowers must accept, while the debtors are glad to get any medium which will pay their notes. Doubtless, each institution of great influence and large capital might circulate, at par value, a limited amount of paper bearing the words "Receivable on deposit, and for all dues to this Bank," without the *promise* of any kind of redemption. As nearly every business man keeps his cash funds in some bank, and makes and receives payments through it, it would be inconvenient for him to refuse bank-money, and unsafe should he expect favors. What merchants, manufacturers, contractors, etc., did not decline those with whom they had business relations, such as producers, employees, etc., would be slow to reject. To avoid depreciation, however, it would be necessary to observe in strictness the single or exclusive law which determines the value of inconvertible paper—*the law of limitation.* The supply must not exceed the legitimate demand.

So commanding is the position of the banks that a few score of the largest and strongest could, doubtless, by united action, if government would but keep its hands off, bring into general use almost any kind of money suitable for its work, depending for success solely on those moral influences which induce consent. Would the banks of New England and New York, most of them national institutions, give up their present charters, and organize anew on a gold basis, under the law enacted for California and the neighboring states, issuing notes payable in specie only, they could initiate a resumption-movement, as they did after the war of 1812, and again in 1837, '39 and '57, which would, at length, as then, extend to the reluctant (or at least hesitating) states farther west and south. Should the inflationists of Pennsylvania, Ohio, the Mississippi Valley, etc., get control of the government, and attempt to reduce their schemes to practice, the friends of a sound and honest currency may be compelled, in self defence, and by a sense of imperative duty, wherever they have the power, to adopt the measure indicated, and, at a favorable time, carry it forward to success. To those who would save the nation from dishonor and the direst calamities, it would, in truth, be the only course left. I am not insensible to some possible and practical difficulties in the way of cutting loose from the banking system of the country, and substituting convertible gold notes for depreciated bank paper, but they might, I think, be overcome by moderation and good judgment, provided always that the government shall place no fresh obstacles in the way of reformatory efforts.

Those who contend that the compulsory clause of the legal tender act was required to make greenbacks current—current as medium of exchange—know little of history and the commonest facts. Everywhere, throughout the reign of unstable or depreciating paper money, it has proved far easier to assure than hinder its circulation—to fasten it upon a people than loosen its ever tightening grasp. Like certain reptiles, it has the power of fascination, and a vitality which is as wonderful as pernicious.

During the forty years which followed 1710, Connecticut found it easy enough—down grade all the way—to put out and keep in use its steadily declining "bills of credit" (circulating notes) without the support (except for a few months) of any tender-law. There were attempts to force the settlement of old contracts with specie, but these were uncommon and usually unrenumerative. The "General Court" favored the debtors, and displayed no little ingenuity in devising indirect ways for escape. The bills were equal in exchangeable value to the "legal-tenders" of the other New England colonies in which they circulated to a limited extent. For colony taxes, they were receivable at a premium of five per cent., and hard money was unknown except as merchandise. Notwithstanding the confusion and disaster they had introduced, so popular were they, even when worth but one sixth of their first value, that decisive action on the part of the British government was required to stay the evil. This action was deemed wantonly oppressive, and brought unaffected grief to a large portion of the colonists. The first opportunity to escape from this particular thraldom occurred in 1775, at the outbreak of the war, and was assiduously improved. A season of riotous liberty, then a surfeit, and lastly, a calamitous breakdown followed. Then came the Constitution with its prohibitions, and a partial immunity from an intolerable nuisance for seventy-two years; then more rioting, and the grand final wreck in the Supreme Court of the United States in 1871.

It is unreasonable to suppose that the government, with the patronage and influence connected with the receipt and expenditure of one thousand million dollars annually, upheld as it was by the banks, the wealth of the "loyal states," the courts and a large majority of the people, and commanding a million armed men impatient to do its bidding, needed the tender-provision to make its notes current. As a circulating medium, and against all the supports and persuasives, moral and physical, which the circumstances supplied, a failure would have been impossible, certainly while the war lasted. Had there been difficulty, the rapid depreciation of the greenback, (which shrewd men anticipated,) and the prompt disappearance or displacement of other money more valuable than itself, both caused by excessive emissions, would have left the field in possession of the government. As strange as it may seem to the unreflecting, there is nothing so certain to fix a currency, momentarily, in the good opinion, if not the affections of a people as its steadily declining value; and the nearer it approaches worthlessness, without extinction, the more popular, with many, it becomes. The reason of this is found in the fact that the very large class of money-debtors pay easiest, that is, with the least sacrifice of toil and sweat, when money has least value. All however which is gained by one class in this way is lost by another.

As the constitution is now interpreted, Congress has the authority (in certain emergencies, if not at all times) to make the greenback or any thing else legal-tender, and to compel the people, whatever the sacrifice, to receive it for what it claims to be in satisfaction of debts. It can put forth a scant and contemptable measure of value, and force creditors to abide by its decisions whatever the injustice; but this is the extent of its power for mischief. It might do more, and prescribe the quantity of goods which shall be given for the greenback dollar, but the end sought in this way has in practice been found unattainable. The immutable law which governs the proportion in which one commodity shall exchange for another—the law of equivalence—has proved too much for it. Desirable it undoubtedly is that the common medium of exchange, and the measure of value used in the settlement of contracts should be the same, but it is not indispensable. Had the tender-provision of the statute of February, 1862, been omitted, government notes would, no doubt, notwithstanding the omission, have become the money of the country. Nor would creditors have refused to receive them till over-issue had much impaired their value, or, perhaps, till the close of the war, when undoubtedly the cheat would have been discovered, and an effort been made to right the wrong. This effort, persisted in, must have brought into use for a special purpose (the settlement of old contracts) a large amount of the only lawful or legal tender money among us, to wit, coin. We should then have had, as now, two kinds of money in circulation; one of metal for the payment of private debts and custom house dues, the other of paper for the accommodation of trade, and all cash transactions. The first would be the standard of value by which obligations contracted on a specie basis would be measured and adjusted. The other would be the common medium of exchange in which accounts were kept. Under these conditions the business of the country might be transacted, and something like justice done; but the inconveniencies of a complex system thus extended would be so great, and the position of the government so embarrassing, not to say disgraceful, that it would be constrained to withdraw a portion of its notes, and so restore the value of the remainder. The apprehension of untoward results and deserved reprobation would doubtless do much to deter from wrong-doing (inflation).

In estimating the effect of the compulsory part of the law giving birth to the greenback, it is important to remember that nearly every well-informed man, who kept his head cool, considered the law unconstitutional and without legal force. Consequently, it could not have had the effect claimed by its defenders—the effect of securing the acceptance of the greenback as a circulating medium. Not till after the war, when interested parties had had time to count the money which the law gave to one party and took from another, that different views, owing, I suppose, to clearer vision, became common.

Continental paper money, though confessedly issued without any rightful authority and binding nobody, was current everywhere, and would buy anything, even when worth no more than one per cent of its face. It was in universal use, not only as a medium of exchange, but for a long time, as a measure of value. Nor did state legislation giving it a legal status, and declaring it "good in all payments" make it better or delay its downfall. Consent, not the supposed solvency of the promisors and their backers, or the hope of ultimate redemption, was the source of all the strength it ever had, while its increasing weakness grew out of over-issues. The state banks, at different periods, say in 1814, '37, '39, '57 and '61, suspended specie payment, but their depreciated notes continued to be the common currency, and as a medium of exchange were universally accepted. Bill-holders, when assured of soundness, rarely attempted to enforce their legal rights, but waited patiently and confidently for voluntary resumption under the pressure of law. The same result would have followed the late war had not the government prevented it by the tender-law and other legislation.

No doubt the legal tender-provision, when a currency is much depreciated, will help indirectly to keep it in circulation and sustain its value. It will do so by multiplying the uses, and extending the demand for it. The domestic debts of a people are always, in the aggregate, very large, and no small amount is required for their payment. The legal measure of value, though notoriously false and fraudulent, creditors will (because they must) accept, and whatever they receive the indebted class, seeking ever the cheapest means of payment, is ready to take. The larger sums are of course most conveniently paid by checks, the smaller in money. The party which is wronged in this matter, and would be righted, is stripped of power; while a larger party, having great influence, profits by injustice, and too often wishes no reform. Those whose credits and debits are nearly equal, or who use money only as a medium of exchange, working, buying and selling for cash only, are, not unfrequently, indifferent spectators. The experience of the last three years should teach the unbelieving that prosperity which has no better foundation than selfishness and fraud is delusive, and that private gain, in the long run, is best secured by measures which promote fair dealing and the good of all.

As a medium of exchange, it is desirable that money should have a stable value, but not quite indispensable. It may fluctuate moderately without becoming unfit for use, because the change while in the hands of a single individual would be small and insignificant. If the fluctuations were more considerable, but all in one direction, and could be foreseen, the prices of commodities would be adjusted to the expected alteration, so that the receiver and holder of money would risk little. On the contrary, should the changes be great, sudden and capricious, so that no estimate could be formed of their extent, direction or time of occurrence, every exchange of goods or property for dollars would be a speculation, a leap in the dark, the end of which no man could divine. Before a reinvestment could be conveniently made, the temporary holder of a treacherous medium might be ruined. When this uncertainty exists, caused by money which is not a reasonably stable measure of value as well as an instrument of exchange, honest, prudent men, those who desire to earn what they get and get all they earn, are greatly perplexed. If they have goods for sale they sell for cash, and are in haste to buy again before cash has lost its purchasing power. Cautious and conservative, they pursued this course during the paper deluge of the late war, and more than others were prepared for the financial cyclone of September, 1873, and the day of judgment which is following it. But times of doubt and surprises delight the adventurer in business. Of large faith, courageous and ambitious, he fears not the risks which others dread. Having perhaps little to lose, he braves the perils of unknown seas, expecting propitious gales and a prosperous voyage, the rich returns of which will be exclusively his, the losses probably not. He buys largely, and as every movement of the currency attractive to speculators is toward expansion and higher prices, he moves on confidently and grandly, borne up by inflated values, till present wealth is achieved—or his notes become due. When prices are capricious and luck determines destiny; when labor is uncertain of reward, and riches have no sure connection with industry and economy; when each moneyed transaction is a venture, and the wisest precautions may prove fruitless; when the legal defences which hedge about one's savings are weakened; then is the speculator's opportunity. Finding the general hold on property loosened, and much of it shifting and drifting about helplessly, no claimant having a very clear right of ownership, he throws himself audaciously among the conflicting forces, hoping to bear off something. Till the "panic" came—which measurably cleared up titles and determined ownership—his success was sometimes marvelous.

In illustration of the principles which govern an inconvertible currency having no intrinsic value, suppose Congress, rioting in unrestricted freedom under the authority of the Supreme Court of the United States, should procure, without cost, a great quantity of paper of the paste-board variety, cut it into strips having a total length of ten thousand miles, and present it to the country as a new currency, withdrawing the old. Its universal acceptance would convert it into money, give it exchangeable value, and qualifiy it to act as the common medium of exchange and measure of value. It would be money without the usual accretions or accompaniments—money without the promise to pay other money, and without intrinsic worth. As no more (by the supposition) could be had, its total value, called forth by the aggregated demands of business, and limited by these demands, would necessarily be "equal to the wants of trade," and sufficient, without excess, for all the moneyed transactions of the nation. Nor would it be more efficient were the quantity of paper double, or less so were it but half as much. Its adequacy would in no way be dependent on its volume (length). It would be needful, however, in order that it might be employed as a counter (medium) in commerce, to divide the strips into parts, as the other counters, the yard-stick for example, are divided. The divisions might correspond with those of the foot rule, the unit being exactly one inch. The units might be detached, or united in groups of two or more, and the fragments numbered, the number indicating the denomination or comparative value, No. 1 denoting unity or one inch, No. 2, two inches, etc. So soon as experience, or the competition of holders feeling their way under new conditions, had determined the proportions in which the new money should be given for the products of industry, and trade had been adjusted to its divisions or denominations, the value of commodities could be measured, somewhat as cloth is, by a strip of paper giving their contents in inches and tenths. Each of the inch-fragments would exchange for a definite amount of goods and labor—an amount determined by the rule of proportion. In other words, the value or purchasing power of each when compared with that of the whole, would be as one inch to ten thousand miles, or one inch to 633,600,000 inches. Admitting these enormous figures to give correctly the sum of all the units, the inch of card-paper, sustained by consent alone, and accepted as the money of the country, would have more exchangeable value than the greenback dollar—more because the number of the units would be fewer and the volume less. Of legal tenders and national bank notes, exclusive of fractional currency, there are now in use nearly $690,000,000. If the bits of card-paper bore the seal of the government, were called dollars and made legal tender, they would be worth no more or less. A name could not change their character, or invest them with a new property. If I am correct in saying that consent and general acceptance will convert any fitting substance into money, the units having a value inversely in proportion to the sum of the whole, I cannot be mistaken in my positions. I have only made deductions from the principles announced in the beginning.

At this point, after all the adjustment had been made, and the value of the unit become fixed, suppose population and business were gradually enlarged till the needful exchanges were doubled. While this change was going on, and not corrected by counteracting influences, the demand for money would continually increase, attended by stringency, falling prices, and an augmented value of the circulating medium (inch bits). The effects would be the same as those resulting from contraction in a financial crisis. Owing to the pressure—pressure against an inflexible barrier—the inch-bit would constantly appreciate till its purchasing power was doubled. When this result had been reached, and the new measure of value become the established one, the currency would be again equal to the demand, and sufficient, with the lower prices, for the work assigned it. On the other hand, if the volume of the currency (the number of its units) were increased simultaneously with the enlargement of business, and proportionally to it, then there would be no augmented demand for a medium of exchange, no stringency, no fall of prices, no rise in the value of money, and no disturbance of any kind. Other effects would of course be produced by a diminished population and declining trade. There would be fewer products to be exchanged, and too much currency for the work till rising prices had increased the demand for it.

It may be unnecessary here to say that I am not about to recommend for adoption the currency described in the last two paragraphs. I am in pursuit of a principle, and seek illustrations.

II.

The Effect of Limitation or Volume on Value.

The effect of limitation or restricted issues on an irredeemable currency—the same effect which follows restricted supply in every department of trade—may deserve further elucidation and remark.

In a rich country, with a diverse and complex industry, a very large proportion of its wealth is created or held for exchange. Though the exchanges to be made cannot well be estimated, they are certainly limited, and definite in amount. They are effected by the agency or intervention of money (or some substitute for it), or rather of the exchangeable value which is its essential attribute. Its efficacy or power for work is proportionate to its value. As the exchanges to be made, and the services to be performed are limited, the value which can find employment must be correspondingly restricted. A sufficiency having been provided, there is no call or room for more. As the farmer in tilling his acres can make use of only a certain number of plows, so the trader who buys the crops has need of only a certain value in exchange. In either case, the implements supplied and not wanted would be useless surplusage. If I buy a cow for fifty dollars, that is all the money that can aid me in paying for it. So in every purchase or sale; so in the aggregate of all purchases and sales; a certain number only of dollars of fixed value can take part in the transfer. Were the currency gold and silver, any additions beyond the demand for exchanges would go into the melting pot or be exported. In this way is an over-supply, followed by depreciation, prevented. But inconvertible paper is worth nothing for exportation or in the arts; and as paper merely, of the finer sort, it is spoiled by the ink. But for circulation, it is more or less valuable. However large, the new issues, besides being cleaner, are as good as the old, and for that reason cannot be ejected. A currency of this kind has no power of self-protection and recuperation. Unlike coined money, when once in excess, it cannot, by any process originating with itself, be depleted so as to recover its natural volume and value. Its non-exportable quality, so attraction to some, is fatal to it.

Though the total value of the circulating medium admit of no increase, the volume of irredeemable notes may be indefinitely enlarged. The enlargement and consequent cheapening of money will not necessarily increase the demand; nor will the supply, however great, glut the market. Demand and supply, in truth, do no relate to volume but to value alone. When it is said that money is in demand, and loans are sought at high rates of interest, it is meant that for the moment more value is needed for the easy transaction of business. Enhanced prices naturally keep pace with enhanced volume, and absorb all the currency which may be offered whatever the amount. A few years ago, the purchaser of a horse was required to give, say, a hatful of confederate dollars, the money price in the Southern States having risen in that proportion. At the point named, the supply was not in excess of the demand. For everything having exchangeable value, except inconvertible circulating notes, the demand ceases after the want which calls it forth is supplied. For them it continues unchecked by the supply. When additions are made, the injury (decline in value) falls exclusively and equally on the units, whether called dollars, pounds sterling, francs, or inch-bits. Without altering the aggregate value of the mass, they degrade the parts, each denomination losing in the proportion that the number is increased. When taken to market, the depreciated medium, so long as it continues to be money, will purchase anything found for sale, but it must be given in greater bulk, or more volume, five dollars, say, for four, three or two, as in the late war and subsequently. The word dollar, when signifying a certain proportion of the total value of a currency, has a definite meaning, but is scarcely intelligible when it gives no clue to proportion, or none which is constant. It is like the share in a railroad or mining company. The latter may have an established value so long as it represents solid capital well expended; but the word suggests no certain idea when rogues and speculators—men with large watering pots in their hands, and fraud in their hearts—become directors and issue the certificates. Water has the same effect upon an irredeemable currency as it has upon a railroad share or the milk man's quarts. In each case it increases the bulk or volume; adds to the number of dollars, shares or quarts, but does not give more value to the whole. The loss falls wholly on the units or parts, and the receiver is swindled to the extent of the water he is served with and pays for. To make the unit conform to the name it bears, and to restore its value, the water must be squeezed out or drawn off. If our rulers, "in Congress assembled," who too often reflect the errors, prejudices and passions of the voters, or are controlled by sectional and class interests, will water the currency they should be stripped of authority, and their activities turned into less criminal channels. Hitherto the government has been the great champion of the water-pot. It led the way, and wears the belt. Corporate and especially railroad swindlers have been followers—successful imitators—but scarcely rivals.

If there be those who desire augmented value and efficiency in the currency, on the ground that "the wants of trade" demand it, and seek to attain that object by further issues of inconvertible notes, they ought to know that the means are quite inappropriate, and that the end sought can never be reached by efforts in that direction. Debased and crippled dollars cannot give efficiency. Trade, in truth, never asks for dollars, though individuals may. Value—exchangeable value—to whatever form of money it may attach itself is the one thing needful. The wants referred to are not the wants of trade but of certain traders and schemers who have given notes for property which they wish to sell. They seek not more value in the circulating medium, but less in the units. They desire more dollars because these would carry up prices, relieve adventurers who have bought on credit, and cause a new distribution of the products of industry. Real estate or a "store" full of goods will go twice as far in discharging obligations when the dollar is worth but fifty cents, as it will when equal to one hundred cents. There are among us many more who comprehend this truth, in all its bearings, than there were ten years ago. Hence the frantic call in certain quarters for cheaper money.

Enlarged volume or inflation means more units at a reduced value, $900,000,000 say to do the work of $600,000,000. To make one of the larger sum equal in value or purchasing power to one of the smaller is physically impossible, though there are those who claim to think otherwise. The obvious way to correct the disparity is to reverse the process which occasioned it, and remove the intruding and superfluous units. This is the natural, most sensible course to pursue with the present currency of the United States. The additions—those not demanded by the considerable increase of production and the exchanges—which have been made since the date of the legal tender law have at no time added a dime to its value or purchasing power. The unit (dollar) has been so degraded by excessive emissions that it is now worth but eighty-seven cents,* with no better result than injustice and dishonor. Like the frog in the fable, the medium of trade has been inflated indecently. It has more circumference than formerly, a wider diameter, but the increase is due to wind, or at best water. Nor would more expansion, as advocated by certain mischief-makers, cure or mitigate the evil. On the contrary, if the disease be dropsy, as the evidence indicates, it would intensify all the symptoms, and make still more imperative the conclusive surgery so much dreaded. It would, when the times again favor, renew the speculation, infatuation, disaster and disgrace of the past.

As those familiar with underlying principles will admit, all that is necessary to maintain the value of the irredeemable United States note, or to raise it to the level of specie, is to restrict the

* This part of the essay was written in the winter of 1874-5, when gold was worth about 115. The remainder was prepared at different times, as leisure permitted, often with long intervals.

issue. It is not the bad faith of the government, its broken promise a thousand times repeated, the wide-spread doubt of its ultimate redemption, or our large foreign debt that keeps it in the mire, and perpetuates the evils of depreciation. So long as consent is not withdrawn, and the total emissions continue unchanged, a better credit could not improve it, or a worse one harm it. Convertibility sets up a barrier to depreciation, but what is called public credit, or the faith of the nation, in an accepted, irredeemable tender-note has no influence whatever, and no meaning. The promise to "pay to bearer one dollar" signifies nothing so long as the note itself is, in law, the dollar promised. Those in ignorance of the causes of depreciation, including some orators in Congress, talk in a dreary, meaningless way about the inherent excellence of the greenback, the vast "wealth that lies behind it," the great resources of the country, the undoubted solvency of the nation, etc., as if these were sufficient reasons for a higher value. The legal tender note has in truth nothing behind it—nothing, I mean, which the bill-holder can take or even touch with safety—nothing but a dreamy, intermittent hope that at some time or other, in this century or the next, the government may redeem it or curtail the supply. On the fourteenth day of January, 1875, Congress, catching through the mist of politics a glimpse of truth and duty, attempted (so I am willing to believe) to put something behind it, but with poor success, if outward appearances and the most dismal forebodings are indications. The "resources" so much vaunted are excellent, but what are they to him who is without coercive means, and whose claim the law scouts? But the public faith, it will be said, is pledged in this matter. In answer to this, it may be replied that that faith which does not secure conversion into something more substantial than itself, or will not prevent depreciation by limitation, is not an element of value. Not in the smallest degree can it compensate one who is continually suffering, getting lean and gaunt from short measure, and pleading for reform. In point of fact, the government does not promise to pay its circulating notes in specie, but in "dollars," and the highest court of the land, in defiance of its own record, has decided that a note for dollars, even when given before the tender-act, is a note for greenbacks. Congress can be more just than the court, and pay in coin as in duty and honor bound, but will it? Its promise, so called, has been broken more than ninety-nine thousand times, certainly as often as payment to the note-holder has been denied or deferred since the war, and every one can judge for himself how much that commodity is now worth. But the new promise, explicit in its terms, formally pledging payment, in specie, on the first day of January, 1879, may if politicians and misguided economists will permit, and the courts do not decide that that too may be discharged with greenbacks, may lead to something important. At the present writing, however, the outlook is not assuring. The persistent attempt, not to amend, but to repeal the act, and repudiate the pledge given to return, without interest, the value received from the public creditors fourteen years ago, does no honer to those making it.

[The recent very considerable appreciation, or increased purchasing power, of the greenback (equal to a fall in the price of commodities) is not due to the act of January, 1875, nor even to the voluntary surrender of their circulation by certain banks, but to the great depression of business. While the demand for goods and property, owing to misfortune and the "hard times," has been much curtailed, holders, for many reasons, have been striving to sell, and in the attempt to do so have run down prices so that two dollars now will buy as much, in most cases, as three would five years ago. The depression referred to has extended to Europe, and over the civilized world, producing a degree of the same effect on specie as on the legal-tender. The latter has been appreciated more than the former because the business of this country has suffered more than that of other countries. For loaning, greenbacks are plentiful and cheap, but scarce and dear when wanted in exchange for commodities and estate.]

Mr. McCulloch, in the New York *Tribune*, writes for the most part sensibly on the money question, but falls into several grave errors and inconsistencies, and sometimes forgets his own admissions. Alluding to the legal tender-note, he says: "No act of Congress can give it a value beyond its convertible value." "Congress is utterly powerless in fixing a value upon it without providding for its redemption." This he affirms with the greenback staring him in the face, which has to-day (January, 1875) an exchange value of eighty-seven cents per dollar in gold without any certain "provision for its redemption." The truth is the government has complete control over the value of an irredeemable and accepted treasury note, not by giving it a respectable name, not by enacting how much it shall be taken for, but by limiting the supply. Mr. McCulloch himself proceeded on this theory when he undertook to appreciate these notes by withdrawing a part from circulation. Notwithstanding his assumption that the government can give no value to paper which is not convertible, or none "beyond its convertible value," he concedes value from another source than convertibility when he affirms that the tender-note is worth as much as it is, or "is not greatly depreciated *because* the United States are a great nation, rich in undeveloped resources, if not in actually acquired wealth," etc. While it is true that Congress cannot create value in money or anything else, it is a mistake to suppose that convertibility is the only foundation and stay of that value. The supposition is in conflict with our daily experience, and of course destruction of the claim that national greatness and abundant "resources" are elements of value. Writers on this subject are led astray by assuming that an inconvertible currency note and an interest bearing bond, both issued by the government, and reading somewhat alike, owe their value to the same causes. Because the bond is worth more in proportion to the established credit, financial ability and abundant resources of the government, they hastily conclude that the same is true of the note. The two have a similar appearance, and bear the same signature. Both promise to pay dollars, but they differ widely in other respects. One carries interest, and to that fact is its value due. For that alone is it sought as an investment. Did it not afford an income, and were it payable at pleasure or never, it would be worth nothing. The other is peculiar in everything essential. Its promise is unmeaning. It pays no interest, furnishes no income, and has no value as an investment. Were the facts otherwise its character would be wholly changed. Consent and general acceptance have imparted to the note an unique quality—converted it into money. Thereby a new function has been acquired which is specific and distinct—one fitting it to become the medium of trade, the measure of value, and the exchangeable equivalent of whatever is offered for sale. Investing it with the qualities most desirable in the bond would divest it of its qualities as a medium and measure.

Convertibility, as I was about to say, fixes a limit to depreciation. It does so by preventing over-issues, or, in other words, by keeping down the volume of the currency to the point where the law of limitation, intelligently applied, would place it. Notes which are certain to be presented promptly for redemption will be withheld or withdrawn because unprofitable. Convertible paper, near the place of issue, can never fall below that for which it may at will be exchanged. But something as decisive may be said in favor of accepted inconvertible notes. Limitation or restricted volume is a barrier to declining value quite as certain as coin redemption. By regulating the emissions, and in no other way, can a government whose pledges (so called) are of the greenback stripe control value. All those who desire resumption, and contend that restriction or cancellation will prepare the way for it, concede the principle. Others who oppose it too often do so because the method urged to secure it would be effectual; would appreciate legal tenders, give them more exchangeable value, and perhaps diminish the resources of many waiting to sell property which has cost more than it will fetch. Instead of contraction, they may want measures which will renew speculation and carry up prices—measures which will enable them to shift their burdens to the shoulders of others, and thus escape loss and financial wreck. Very naturally, men loaded down with estate which they can neither carry or sell desire relief, and sometimes, without thinking of the general results, favor a policy which leads to over-issues and depreciation. Because self-interest obscures the vision, impending danger is overlooked. Constant watching and the most strenuous efforts are required to preserve the usefulness of inconvertible paper money, and defeat the schemes of those who would degrade it for selfish ends. When supplied in excess, its diminishing value meets with nothing to arrest it. Once in the gutter it is helpless, with no recuperative power. The strong arm (untrustworthy in most cases) which controls the emissions, alone can lift it and sustain it.

Facts then which will not be denied, and arguments none can meet show that legal tenders owe their continued degradation not properly to inconvertibility but to excessive issues—issues for which there is no outlet or possible way of escape. The notes are now worth as much as eighty-seven per cent, not " because we are a great nation, rich in resources;" not because " the public credit is pledged " for their redemption; not because they are " legal tender at their face;" but for the better reason that Congress has been more conservative, or rather less foolish and wicked than it might have been in the use of the watering pot. Had the supply been checked reasonably, as in the case of France in her late struggle with Germany, there would have been no depreciation, no difficulty in resumption, and no opposition to it from any quarter. In this matter the French government exhibited more knowledge, and sounder statesmanship than ours. The inconvertible paper it permitted in a time of unparalleled embarrasment was so limited by inexorable law that its value has scarcely declined for a period of six years. Managed with equal prudence, it would doubtless be as good as gold till the end of the century. To raise the greenback to par, it is not necessary to do more than retrace the steps which led to its disgrace, and cancel a hundred or two million. Were this course further pursued, provided no other currency were attainable, it could be made more valuable than specie.

When I affirm that the volume of the currency determines its value, I of course refer to that portion of it which is in circulation. If a part for want of use is stored away in the vaults of banks or in private safes, as always happens when business is depressed, that should be left out of the account. Greenbacks or national bank notes thus disposed of are for practical purposes retired, and can have no effect till called forth for service. The two kinds of notes—those of the treasury and the banks—are equally active and efficient, and as money have in ordinary cases nothing to distinguish them. In this essay I have kept the greenback prominently in the foreground because that, and that only, blocks the way to reform.

The effect of limitation is seen in the sustained value of the subsidiary coins of a country which are usually made proportionally lighter than the unit-pieces. Nothing is required to ensure their circulation at their face value but to stint the supply. Government credit and the wealth of the people have no more to do with it than with the flowing of the tides. The copper cent and the five cent nickel-piece have many times more exchangeable value than the metals they contain. If limitation, as in these cases, can add to intrinsic value several hundred per cent, it may add to it indefinitely. The quantity of metal, indeed, is of no account. Whether much or little it goes for nothing. A bit of paper inscribed "one cent" or "five cents" would do as well, as we have abundant opportunity to know. Were the coins named much heavier than now, they would be worth no more till their increased weight made them more valuable as copper and nickel than as money. Not till their commercial exceeded their nominal or conventional value would they cease to circulate. It is usual to make a subsidiary currency convertible into money of a higher denomination, but this is not important except that an outlet is thereby provided for excessive issues, and depreciation prevented. Unquestionably, the gold dollar, in places where that is a part of the currency, might be made lighter by one-tenth, one-quarter or more, without impairing its value, were the supply sufficiently restricted. Thus restricted, the new would circulate by the side of the old coins till supplied in sufficient number to satisfy the whole legitimate demand, when the last of the older and heavier would disappear. Were the restriction at this point removed, and the new issues continued, there would be progressive depreciation till the exchangeable value of the pieces was equal only to the gold they contained. Whatever is true of the dollar is equally so of any or all the other coins. So indispensable are they, so intense, in the absence of other money, would be the demand that scarcity, artificial or natural, might force up the value ten fold. When thus forced, their exchangeable would exceed their commercial value in the same proportion. Under such circumstances, they would be too valuable for conversion into bullion, or for exportation. Worth more for money than for anything else, they would, like irredeemable, depreciated notes, obstinately continue in circulation. Curtailing the supply, then, may add to convertible, intrinsic or conventional value indefinitely. When this fact is fully understood, and appropriate legislation is no longer withheld, suitable preparation will have been made to raise greenbacks to the level of gold. Mr. McCulloch's management was not always discreet, but his method by contraction was the proper one. Had he been allowed to proceed, the inevitable catastrophe—inevitable because its causes were already in existence—though probably occurring earlier, would doubtless have been less disastrous than that of 1873, and not as provokingly lasting in its effects.

At the present moment, (fall of 1876,) the change which for some time has been going on in the value of silver is attracting much attention. Considered as bullion and comparing it with gold, its depreciation, owing chiefly, as is claimed, to the adoption of an exclusive gold standard in Germany, the smaller demand for exportation to India, and the increased production in our western states, now amounts to fifteen or twenty per cent. The facts connected with this extraordinary change illustrate the preceding remarks.

To-day the metal, silver, is worth several per cent less than greenbacks. This accident, pregnant perhaps with very important results, has led to its reintroduction among us as a substitute for fractional paper currency. Having the legal tender quality in small sums, the coin of course circulates freely at its nominal value. Two fifty cent pieces containing three hundred and eighty four grains of standard silver are to-day worth intrinsically eighty-one cents in gold. This is their convertible or commercial value; yet as money they are equal to the "trade dollar" weighing four hundred and twenty grains, or to the greenback dollar worth eighty-nine cents (gold). Were paper out of the way and gold the only legal tender, they would at once rise to par. They would do so though the public credit should go to the dogs. But the only condition on which a subsidiary coin (or indeed any other currency) can rise above its convertible value is its limitation in volume. Issued in excess—in excess of the legitimate uses for it—it will not be received in exchange for property except at a rate proportioned to its depreciation. In this case, whatever their short-comings, governments are wont to provide a sufficient safeguard against that contingency. So far, at least, they all understand the principle and effect of limitation. The only way that a double standard of value, say of gold and silver, can long be maintained is by the application of this principle. Should one of the metals decline in value, a restricted coinage will prevent its fall as a medium of exchange, or as money, and make it equal to the dearer metal. Since this decline, France, it is understood, has put in practice with entire suceess the limitation-method to preserve its duplex standard. When the inequality is caused wholly by the depreciation of one of the metals, used as standards, the other remaining fixed, as seems to be the fact in the present instance, the French method is the proper and just one. But if, on the contrary, one have appreciated while the other is unchanged, justice requires that the cheaper and more stable metal should become the standard. A coinage supplying the latter to the extent of the demand would secure the desired end—secure it by driving the more valuable money out of circulation—leaving the least valuable to fill the void. In our case, a law giving silver dollars of the old pattern their former legal tender quality for all amounts, the mint being free to all, could not demonetize or force out of use our irredeemable, and intrinsically valueless paper currency. On the contrary, the silver coins would mingle harmoniously, as they were issued, with our now more valuable greenbacks, increasing the volume, and reducing proportionately the value of the units, till the whole mass had been degraded to the silver level whatever that might be. If afterward silver happened to rise, the other conditions remaining the same, it would carry up legal tenders to their old position, but could not give them a higher value than they had before so long as the volume was undiminished. If at this point the upward movement of silver were continued, paper, unable to follow, would again become the sole medium of exchange and standard of value, while silver coin would be demonetized as gold is now.

With an unrestricted coinage, a double standard of value is practically impossible—impossible because the relation of the two metals is perpetually changing. Suppose to-day, gold as compared with silver be worth in the proportion of one to sixteen. If in that case the gold dollar should be made to weigh 25.8 grs, standard fineness, the silver dollar must weigh 412.5 grs. Undoubtedly they would circulate together so long as they remained of equal value; but let the smallest change occur in either of the factors—a change sufficient only to pay the cost of melting or exportation—and the double standard would disappear. The cheapest metal alone would be used to discharge debts, while the dearer would become merchandise. The saving of so small a proportion as one-quarter of one per cent would, as in other business transactions, be a sufficient ground of preference. Many times have governments (including our own) attempted to so adjust the weights of the respective coins that both metals would continue in use, but in every instance has the attempt signally failed.

Limited supply, from whatever cause, increases the exchangeable value of commodities as well as money. Producers and dealers understand this too well. Whenever they get the power, whether by monopoly, combination or otherwise, they always manage to understock the market, and thus increase their gains, while consumers suffer. The principle applies to every thing held for exchange. The demand given, the less there is of the thing sought the greater the value of its units or parts. A decisive way to test the efficacy of any of the untried schemes for resumption (their name is legion)—schemes which often promise to reach the desired end by easy, pleasant ways without any disturbance of values or business interests—is to show what effect will be produced on the currency-supply. If, as a result, no notes would be cancelled or retired no progress will be made. The sufficiency of limitation is conceded when so much evil is apprehended from restricted issues.

Should the government pledge itself (giving as individuals do ample security) to redeem its currency notes in specie in ten years, the secured pledge alone would not, for a considerable time at least, raise their value so much as a mill. But if the time were made two years, and no one doubted prompt payment, greenbacks (estimating the gold premium at ten per cent.) would be worth five per cent. per annum to hold as an investment—to hold as one holds a note coming due in two years. Under these circumstances, they would be withdrawn from circulation till the growing scarcity had carried up the value of the remainder to a point which made hoarding less profitable than loaning at current rates, when the former (contraction) would cease, to be again renewed as the period for redemption approached. The fact that Mr. Sherman's bill of January, 1875, requiring the government to pay its notes in coin on the first of January, 1879, has had no more effect on their specie value, is doubtless due to a suspicion that it was not passed in good faith; that it lacks provisions essential to its best success, and that it will not be carried into execution at the time designated. Were the promised resumption confidently expected, greenbacks would be sought as government securities redeemable in two years, and paying to the holder five per cent. per annum in coin.

The men who are so alarmed at the thought of retiring legal tenders, and the consequent shrinking of nominal values are usually those who strenuously contend that no depreciation or other injury can result from expansion. When reminded of the existing inferior purchasing power of circulating notes, and the premium which is paid for coin, both decisive indications of currency degradation, they attribute the disparity to the altered value of gold, or to any cause but the true one. They devise futile plans to force down specie, as if specie value could be manipulated as successfully as the paper supply, and at the same time oppose fervidly the only method by which equality can be established. Of two possible alternatives, we can take our choice. One requires a liberal cancellation of notes; the other, their convertibility, on demand, into coin or something equal to it. Whichever plan is pursued, the same result—limitation of supply—follows. It is folly (or worse) to try some middle course, to attempt the impracticable, to waste time on shams, or to cheat one's self with false hopes.

The advantages of our irredeemable paper currency should not be overlooked. It is convenient, portable in large sums, and may be counted with great facility. Its first cost is comparatively little, though the constant outlay for repairs or renewal is a more serious matter. It is doubted whether the annual expense is less than that incurred by the use of coin. When the issues are confined within impassable limits, and the other forms of credit are not abused; when the exchanges to be made from year to year are nearly the same, and goods are never bought and sold except for "distribution," it is a trusty measure of value, as perfect as any yet devised. Under the infrequent, and almost impossible circumstances named, it is not inferior to the precious metals whose value is largely dependent on the productiveness of the mines, the methods of extraction, the consumption in the arts, etc. Its inflexibility too would tend to keep trade within its legitimate limits, restrict speculation, and clog with the weight of a stringent money market the initial steps which lead to excitement, inflated prices and devastating panics. Under its repressive influence, the financial sky-larking of the years preceding 1837 and 1873, and the disasterous fall which in each case closed the exhibition, would have been very difficult, scarcely possible. In addition, it may be said that an accepted, irredeemable, legal tender currency, designed for permanent use, cancels obligations, leaving no debt behind; while a convertible treasury or bank note pays (it has been said) by transferring to the creditor a claim against a third party. There is always left, as a residuum, this unsatisfied claim; but that does not prevent the note from discharging other claims—does not in the least disable it as a debt-paying instrument.

The advantages are undeniable, but the objections to the money in question are of the most serious, if not decisive character. If it admit of no increase, it cannot adapt itself to the natural, ever varying wants of population and trade. If the demand were continually augmented by enlarged industry, and a more extensive business, there would be a scarcity of money, a high rate of interest, declining prices, and hardship to the debtor class—conditions discouraging to producers, and fatal to general thrift. It is true the sovereign power might, did it but know when and how to do it, remove the barrier, and supply the deficiency in the circulating medium; but the practical result of this interference would be to destroy the good belonging to the system, and the introduction of a sure element of uncertainty and confusion. No government of whatever name has wisdom or honesty enough for so delicate and responsible a work. Our government, at least, was not intended, nor is it competent for that or any similar service. So tremendous a power, to be exercised at discretion, especially when the legal tender principle is involved, can with safety be lodged nowhere. Least of all ought it to be confided to political parties, each striving to capture the popular vote, and each ready, perhaps, to sacrifice truth and justice. On this subject, Mr. Ricardo remarks that "neither a state nor bank ever had the unrestricted power of issuing paper money without abusing that power;" and the history of the future, in this matter, will doubtless be that of the past. Congress has proved its utter unfitness for so important a trust. Now that the supposed barriers to paper money emissions by the government have been broken down, nothing but a constitutional amendment, prohibitory in its character, and positive in its terms—one which, if the legislative department prove recreant, the courts will feel constrained to respect—can save this country from one of the direst, most seductive evils of modern times.

III.

Money as a Measure. Coin, its Stability and the Confidence it inspires.

As a means for the satisfaction of debts and contracts, it is vastly important that money should be a "reliable" measure of value, as exact and stable, were this possible, as the yard-stick is of length, or the bushel and gallon of capacity. Equally of all, invariableness is the intended characteristic, and the ground of usefulness. Like the other measures, money should be the same to-day, to-morrow, next week and next year. Hundreds, I may say thousands of millions are dependent on its trustworthiness. It has been objected to the precious metals that they are not quite constant, not as trusty as the foot rule and pound weight, but this is not a good reason why they should be discarded till something better is found to take their place. Were not money a measure reasonably certain, the whole credit system would break down hopelessly. No "time bargain" involving the use of money could be prudently made. No capitalist could safely lend, no business man borrow, no banks of discount exist, no notes be wisely taken or given, no "trusting" over night. In the absence of a proper standard, a life or fire insurance policy, an annuity, a salary or fixed income in money can have no certain value, and can provide no sure means of indemnity or support. Its necessity when justice and fair dealing are sought must be obvious. If I buy of a farmer one hundred bushels of corn, and agree to pay at the end of thirty days one hundred dollars, I make a bargain satisfactory to myself, promising to return in money a value equal to that received. But if, when the debt become due, I offer mutilated coins worth but seventy-five per cent., and which may have cost me but that, I attempt a transparent fraud. The proposal, as it ought, would be received with indignation because the value tendered was but three-fourths of that promised. To make imposition and dishonesty more difficult, and furnish a measure which will supply the wants of debtors and creditors alike, worth as much several months or years hence as now, and serving as a safe basis for contracts, government has fashioned a coin containing 23.2 grains of fine gold, stamped it with its authority, called it a dollar, and placed it in the hands of a too confiding people as a trusty and uniform measure of value. Relying on its stability, a man may sell his house, his merchandise or services without the risk of loss from a treacherous standard. When payment is made, he will get as much value or purchasing power—as much labor or labor's worth—as he had before the sale, and in a more available form. Each party has secured his object, and holds in possession the full equivalent of the thing surrendered. The utility of an honest measure of value—one that no man or set of men, speculators or politicians, no class whether debtor or creditor, no people in the interest of a section, can alter or set aside—is thus illustrated. No one denys that the other measures having equal but not greater impotance should be uniform, and that no changes of a kind to affect outstanding contracts should be allowed.

When I purchase one hundred yards of cloth, delivery and payment to be made at the end of twelve months, justice can no more be done by paying defective dollars (hard or soft) than by the delivery of abbreviated yards. If the dollar be short in weight or value, the yard, pound, gallon and bushel should be short in proportion. If the standard in one case be changed "to meet the wants" of buyers, it should be in the others to meet the wants of sellers. The wants of a man who sells pounds, gallons and bushels may be as pressing as the wants of one who pays dollars. The person who promises coal, wheat or acres, is entitled to as much indulgence as he who promises money. If the farmer, shoemaker, clergyman or laborer be compelled to take "cheap money," he should be allowed to give cheap potatoes, cheap shoes, cheap sermons or cheap labor. It is as reasonable that the measures of cloth, iron, wood, etc., should be short when you sell on credit, as the measure of value when you buy on credit. The fact that the tailor who makes you an honest coat consents to wait a year for his money is not a reason why he should accept dishonest dollars. If each of two parties be equally meritorious, and in need of means to do right, and pay according to promise, why should they not be served alike? Why should one be the beneficiary of the government and not the other? All legislation sought for the advantage of a particular class should be as comprehensive as possible, for we are a people purporting to have equal rights. The benefits accruing to certain individuals from depreciated money are obtained at the expense of others quite as worthy. When three years ago Boston lost heavily by a conflagration, some unthinking or selfish persons urged that government should help that proud city by issuing more greenbacks, seemingly on the supposition that those who had contracted to deliver dollars were the only debtors or persons that had lost or deserved assistance. Had the desired issue been made and the currency been degraded, all the holders of money-contracts in the greenback states would have suffered for the benefit of a class of persons ninety-eight per cent. of whom, probably, resided out of Boston; while the merchants and capitalists living there, in consequence of large credits elsewhere, might have lost, in the aggregate, more than all the inhabitants gained.

Cheap (depreciated) money is a cause of cheapness everywhere—cheap patriotism, cheap legislation, cheap statesmanship, cheap morality, cheapness in Washington and Albany, cheapness in the courts and at the polls, and cheap service, public and private, wherever service is due. Scarcely had Congress passed the tender-law of February, 1862, than cheap performance and cheapness in all directions spread like an epidemic. During the war it was called "shoddy," and a famous character did it become. As the law of retribution required, the government was the first to suffer. It was cheated, robbed and plundered, on a magnificent scale, by its professed friends—by contractors, speculators, politicians, patriots, middle men and rings of every name. The practices thus introduced prevailed without intermission till checked (scotched) by the panic of 1873. The appalling magnitude and frequency of corporate (particularly railroad) unfaithfulness are largely due to cheap money, and the phrensy it begat. Without it, our Tweeds and Jim Fisks, the mushroom growth of a profligate era, would have been comparatively unknown.

Having suffered severely from "governmental" tampering with the currency, the framers of the Constitution of the United States, rejecting a provision authorizing Congress "to emit bills of credit," or notes of circulation, placed the different measures—those of value, length, weight and capacity—on the same footing, hoping, doubtless, to remove all from the peril of legislative interference, and to make them alike inviolable. After full discussion, the convention refused to dc more than give the power "to coin money, regulate the value thereof and of foreign coins, and fix the standard of weights and measures." The "value" of the coins thus authorized was "regulated" when, in April, 1792, Congress enacted that the American dollar (silver) should weigh 412 grains, and the eagle (gold) 217 grains, each to be of a certain fineness, etc. The stamp served as a certificate of quantity and quality. Subsequently, new coins were minted, and slight alterations in weight made, that the inequalities growing out of a double standard might be corrected. Thus was the authority of the Constitution, (in this matter,) as then and for seventy years thereafter understood, exhausted.

Of course, the dollar might, before it had come into use, have contained any number of grains of silver or gold—might have been made as "cheap" as the greatest stickler for cheapness might desire, without inflicting injury on anybody. The wrong consists in changing arbitrarily, perhaps wantonly, a standard long fixed, on which a vast number of unexpired contracts have been based, without any protection to those who must be robbed by the change. The people, it may be, take the new (watered) money in ignorance of the debasement. Finding that it bears the same name as the old, and is authenticated by the seal of the government, they very naturally conclude, till bitter experience proves the contrary, that it has the same value. Paper money, especially if it be inconvertible, though it pledge the "faith of the nation," and wear the symbols of justice in its face, furnishes peculiar facilities for fraud and robbery. Fair to look at, insinuating, insidious, surchanged with promises and deceit, it is a potent instrument of mischief, "a gay deceiver," slaying while it captivates. There is something in its early and more superficial effects which is mysteriously seductive and delusive, and quite bewildering to the popular mind. If a man wish to lead astray, and befog an enthusiastic person hopelessly, he has but to ask his solution of the money question.

The "faith" spoken of and the symbols in vermilion, like the promise before mentioned, do not impart the smallest value, multiply them as you will. It is sufficient to say they are not convertible, and do not imply limitation. Considered as a reasonable basis and ground for confidence, faith, pure and simple, costing nothing and representing nothing, is too etherial for any service in the economic world. In one sense, it is a delusion, in another, a pit-fall and snare.

Long experience has shown that the precious metals have unequalled advantages as the material of money. Everywhere are they known, their uses understood, and their good qualities acknowledged. Manufactured into coins, they constitute the circulating medium of many countries, and a standard of value in nearly all. When uncoined, passing by weight, not by tale, they are the only international money recognized and employed. In this form, they are used as a fixed measure by which the value of any local currency is determined. With their assistance, the merchant in New York or London, holding in his hand the price lists of his own and of foreign countries, is able to compare one with another, and tell at a glance what commodities can be exported with a profit, and where they should be taken. He can also decide what goods his ships can bring home with advantage, and in what markets they should be bought. Should the foreign exchanges, so called, be disturbed, he can see whether gold and silver will not make a more lucrative shipment, one way or the other, than merchandise. As every people having a foreign trade must hold a stock of precious metal for international uses, or as a fund out of which merchants can pay adverse foreign balances, etc., it is desirable that local currencies should, as far as possible, be metallic. Where this is the fact, the store in a country thus favored will be so enlarged that the removal of a few million will not cripple business by embarrassing the money market. More than other people, we of the United States have been accustomed to suffer, in the great commercial crises of the world, partly because our business is done, even in specie-paying times, almost wholly with paper money, so that when a moderate amount of gold is wanted for exportation little can be taken without producing extraordinary effects—great scarcity of the metal, a rapid fall in the prices of exportable commodities, and commercial distress. This is especially true when the paper in use is the convertible note which is marvelously sensitive to the smallest unusual demand for specie. Panic stricken, it retires precipitately to its hiding places, leaving the producing and trading classes without facilities for the transaction of business. No doubt the laws requiring custom-house duties and interest on the public debt to be paid in coin have tended to moderate the "gold famine" when foreign exchanges have been adverse.

Gold and silver, considered as metals, are commodities. They are the product of the industrial forces, labor and capital, or say labor. Toil and sweat are expended in mining, transporting and fitting them for market. They contain labor in a concentrated form; may, in truth, be called labor materialized and solidified. Labor is the sole ground of their value, intrinsic and exchangeable. Could they be obtained without effort, they might be useful, but would not have value. In exchange, they will command as much labor, say in the form of goods, as they themselves contain. The cost of production determines the proportion in which every industrial product shall be given for others. A week's work in the form of gold is the natural equivalent of a week's work in the form of cloth or shoes. The two have equal value in exchange. Of course I do not forget the temporary fluctuations which proceed from the altered relations of supply and demand.

Gold and silver coins of known weight and fineness are admirably fitted to perform the functions of money. Costing labor, and always in demand, they have a solid and permanent value, themselves being the evidence of it. When taken in exchange for goods or services, the holder knows that he has obtained a substantial equivalent. In them is stored up ready for immediate or future use whatever labor or value he may have parted with. Connected with them is no blandishment, mystery, trick or cheat. Plain people can comprehend their office and operation. They are not dependent for their goodness on some convertible privilege, on the solvency of the issuers, on broken pledges, promises without performance, the faith of the nation, or on anything outside of themselves. The "nation" might be quenched in brimstone without harming them. Their purchasing power is not crippled when the government chooses to make others like them. Hard work alone, not the power press, will suffice for their production. They are not of a bibulous nature, and cannot be successfully watered, or cannot in the same way as paper money. Were individuals at liberty to manufacture them, the makers could earn no more than ordinary wages, and would obtain less were the market temporarily overstocked. There is no motive on the part of any body or any power to multiply the national coins to the extent of depreciation. Should this be done, unwittingly, the owner, finding them worth less as money than for bullion, would convert them into the latter by means of the crucible. Thus the currency would be depleted, and volume be made to conform to intrinsic and commercial value. Inflation, therefore, as usually understood, with depreciation and its attendant evils, is impossible. As much may be said of contraction. Should there be, temporarily, a short supply of coin, an intenser demand would present sufficient inducements to augment the quantity. Bullion would be taken to the mint for coinage, importations be stimulated, and mining become more profitable than before. In this manner, the evil would be steadily counteracted and soon cured. A scarcity of money produced by enlarged population and more extended industry and trade, making needful a lower range of prices, would be corrected in the same way, almost in its inception. Thus is the supply adjusted to the demand, and the accepted standard of value preserved by a mechanism which is self-regulating, and as certain in its effects as the motives of human conduct. The acts involved are automatic, as it were, securing the end without special aim or intention on the part of the actors;

and no sooner does the necessity arise, and the familiar signals are given, than a movement is initiated to supply what is needed, and forestall threatened disorder. Human beings, prompted by the love of gain, are instruments, perhaps unconsciously, in a most important work—a work too nearly connected with the great industrial concerns of a people to be committed to heads and hands less intelligent and energetic than those prompted and guided by self-interest.

The expression—"The supply of money should be equal to the wants of trade," is at least intelligible, provided the money referred to be specie. It means that the business of a country should have its proportion, and no more, of the circulating medium of the world; that unnatural scarcity should be met by greater abundance, and super-abundance by greater scarcity; that the volume should not be changed arbitrarily or capriciously; that any new demand growing out of an enlarged industry should be relieved by an ampler supply; all for the purpose of preventing fluctuations in the standard of value, and of holding prices at their normal level. Every legitimate demand for value should be satisfied, but this will be done by virtue of the inevitable law which governs the movement of specie—a movement which may be embarrassed but cannot be helped by supervision or outside interference. Government, in this matter, as in some others, can do nothing but blunder. Its whole duty is discharged, and its useful ability exhausted when it gives honest coins for all the bullion offered. It might as well attempt to control the tides as superintend the ebbing and flowing of the precious metals. The tidal current, obedient to the slightest impulses, moving always from the places where money abounds toward those in want of it, repelled in one case and attracted in the other, furnishes in all instances a natural remedy, safe, prompt and sufficient, for unequal distribution. This restless current, reaching every shore, arriving and departing in ceaseless alternation, provides the long sought and much vaunted elasticity of which certain statesmen and politicians are so enamoured, and which they are hopelessly striving to impart to irredeemable paper. Though the supply of the precious metal and consequently of coin has reached its limit when the cost of producing it exceeds its value, this limit will yield indefinitely for the good of all under the pressure of any new demand raising its value. Hitherto, discovery and invention, bringing into use more productive mines and improved machinery, have kept pace with the enlarged consumption of the metal, and the enhanced demand; and there is reason to believe that these will prove sufficient for any new emergency. The danger which is now most threatening is that of depreciation from the diminished cost of production. That a degree of this effect has already been produced will, I think, become more apparent than ever when the extraordinary financial influences now at work shall have given place to normal conditions.

I have said that a specie currency, unlike inconvertible paper, offers no inducements to an increase of volume by injecting into it new dollars like the old. Nobody expends his strength without an object, and that object with every person of whom Political Economy takes account is *gain.* Though the inflation (properly so called) of a metallic medium be impossible because unprofitable, there is no inflexible barrier to any needful expansion. The expansion and contraction which it permits are conservative and safe, giving it special fitness for its chosen work. In this regard and for other qualities, it has far more to recommend it than any other currency yet discovered or invented.

The business of making or issuing hard money of standard weight and fineness, has no attractions for the criminal classes. No man can be cheated by it, or wheedled out of his earnings. Not by its agency can his savings or property be confiscated, or transferred to others without his consent. But there is a way, now unfashionable, of so manipulating metallic money, as to inflict wrong and injustice. For the sake of illustration, suppose Congress, instead of enacting the legal tender law, had adopted its principle, and concluded to experiment with the constitutional currency then in existence, making more dollars out of the same quantity and value of metal. In place of continuing to issue coins of full weight, it might have divided the pieces, making four dollars out of two, at the same time declaring the fragments to be true dollars, "legal tender at their face." Bating the tender provision, this is the method of the counterfeiters, (they remove the precious metal with the drill, and fill the holes with lead,) and would be both in theory and in fact, a genuine inflation—inflation of the same sort as that from which we have suffered so much and so long. As a reward for its ingenuity, the government, in its straits, would have gained great power, and placed itself in a position to make forced loans, and "borrow without interest." Receiving as now old money for import duties, and paying out the new, it would have bagged fifty cents for every dollar disbursed. The public creditors who were obliged to take it would have suffered no more than those victimized by the greenbacks. As the result of the measure, the debased coins would have become the common currency, and prices have risen say 50 per cent. The man who bought a cow or farm under the old dispensation, and paid for it under the new, would have obtained it for half its value. As happened during the war and subsequently, property, to an enormous extent, would have been wrested from the industrious and provident, and given without consideration to others, largely to the spendthrift class. Great excitement must have been produced, and "cheap money" have become vastly popular. The rising prices would have given birth to a race of frantic speculators, each afraid of being last in the race for sudden wealth. At the close of the war, many would have said, as they do now, and as they did in continental times a century ago, that the new money was a necessity of the crisis, issued in conformity to the fundamental law, and indispensable to success, the Supreme Court of the United States concurring in the opinion. In conclusion the government, as in honor bound, and disdaining (seemingly) to profit by its own wrong, would have paid its enormous debt in the dollars of our fathers—dollars having twice the weight of those borrowed. It must do this or lose forever its ability to borrow again. When at length reaction and a panic had come, some of those caught in the storm, as in 1873, would have said in explanation that there was not money enough in the country, that more inflation was demanded, and that the dollar should be again divided. Some Secretary Richardson, probably, would have approved the suggestion, and attempted its reduction to practice; while a supple Congress, instead of striking down the offender, might have winked at, and then sanctioned the usurpation.

The phenomena above described can in no way be distinguished from those of a paper money inflation. Springing from the same cause, following in the same order, and proceeding to the same conclusion, their essential identity must be conceded. With equal propriety and in the bitterest vein of irony could the degenerate dollars be called "the money of the people," "the poor man's money," etc. The iniquity of debasing the gold dollar is no greater than that of degrading the paper dollar, nor is the act more contemptible in itself. In both cases, the old standard of value is overthrown, and measureless wrong and injustice inflicted.

There is, comparatively speaking, one important advantage of metallic over paper inflation. Coins of half weight cannot depreciate or in any way injure those of full weight. The latter will have as much value as they ever had, and, so long as the coinage is unrestricted, will exchange each for two of the former. Of course they will pass out of circulation when sufficient provision has been made for a cheaper currency. Nor will any addition of light dollars do damage to other pieces like themselves. The last issues will be worth as much as the first, each coin having a purchasing power equal to the gold it contains. When once established, its value will not fluctuate from day to day. It is hard money still, and, according to its weight, a truth-telling measure, quite as trusty as before. Nor will it command less in the market because still cheaper emissions have driven it from circulation. In these particulars, the facts connected with an inconvertible paper currency are profoundly different. Every dollar added to it drags down all the others. All are depreciated according to a law already considered. As there is no way for its escape—nothing better into which it may be converted—the mischief is usually remediless. Controlled by selfishness and the baser elements of human nature, the tendency of such a currency is invariably toward a lower level without reaction till the sure and final catastrophe forces reform.

IV.

The Convertible Note—Its Advantages and Defects.

Specie is a costly currency. Were it used as the sole means of payment, all substitutes having been abolished, the amount of labor and capital required for its production and renewal would be vast almost beyond computation. In a country like ours, where the industrial forces are not superabundant, the work of providing it, even from our own mines, would make a heavy draft on the resources of the people. Nor is its weight a matter of small consideration in the larger transactions, so moderate a sum as $225 in gold coin weighing more than a pound (troy). To promote convenience and economy, the convertible note, payable on demand in specie, has been invented, and is now largely used among the more civilized nations. It is a great favorite of the commercial classes, particularly in this country. Hitherto, in the United States, it has been issued by the banks, usually under state laws. When the circumstances are favorable, it is readily accepted by the people as money. Even when not legal tender, if it be made payable in specie on demand, and the holder have unshaken confidence in the good faith and ability of the promisor, experience has proved that it will not depreciate as compared with coin, and will not be presented for redemption, except in rare instances, mostly when the metal is wanted not as money but as merchandise. Fittingly enough (if the distinction be important) notes of this kind have been called a credit currency, sometimes a debt currency. Besides being money, they are promises to pay other money, and their comparatively stable value depends on the credit of those who issue them. Should the latter fail, or be suspected of insolvency, the conditional consent which has given them circulation is immediately withdrawn. This withdrawal divests them of the quality of money, and they become only private notes of hand—a discredited asset against an embarrassed estate. Credit is their vital principle, and the coin supposed to be somewhere waiting for the holders their support. Unlike specie they possess no intrinsic value, have cost no labor, and differ wholly from irredeemable paper. In their constitution is a provision—rather an abiding principle—intended to control the issues. Convertibility checks the supply, limits volume, hinders inflation and thus sustains value. Their safety is in the self-interest which constrains those who for profit have undertaken to furnish the circulating medium, and to make it what it pretends to be and should be.

In quiet times, experience will determine, with sufficient certainty, the frequency with which convertible notes will be presented for payment. When this is known, practical rules may be framed for the guidance of the issuers. What proportion of coin is required to place credit on a firm basis, and to meet any probable demand may be easily learned. Having provided itself with the due proportion, a bank may prudently exchange a certain amount of circulating notes for short business paper, or any paper not too long which will be paid when due, confidently expecting that the promised payments will make seasonable provision for any notes which may be returned for redemption. As the bank notes loaned draw no interest, there is an enduring temptation presented to over issues; but the custom of prudent borrowers to ask for no more money than can be usefully employed will operate as a perpetual curb. Money in hand yields no profit, and none but spendthrifts and speculators will take (to pay any thing for it) more than they can use to advantage. If an unwonted amount be called for to meet a temporary and special want, say to "move the crops," the theory is that the excess will be returned so soon as the emergency is past—returned when the additional paper discounted is taken up. Thus expansion, whatever its limits, caused by the irregular perhaps periodical movements of business and trade, will cure itself. The currency which is required to supply the permament wants of a people remains in circulation, while any which is called forth to meet a transient demand disappears as soon as its special work is done. It retires to the vaults of the banks, and cannot find its way out till suitable work is again provided for it. Thus inflation by convertible notes is prevented without practical conversion.

Views somewhat like the above are presented by several writers on monetary science. Prof. Price in his recent work on "Currency and Banking" alledges that "an inflated circulation of bank notes payable on demand is a pure absurdity, nothing better than nonsense." But surely Mr. Price forgets some things with which every one who writes on this subject should be familiar. His remarks might have the color of truth were banks always discreetly managed; were they never led astray by cupidity; did borrowers never ask for money except for their legitimate business; did superfluous middle men never interpose between the producer and consumer, buying up goods, and selling to other adventurers at enhanced prices, thus increasing artificially the volume of trade, the aggregate number of the exchanges, and the demand for the medium of exchange, or money. Were all the *ifs* out of the way, and men of all classes forever kept their heads cool, his declarations might be sustained, but, notoriously the facts are otherwise. Too easily may a speculative or inflation-movement be initiated by circulating notes payable on demand. Let a bank of large capital and influence, anxious to win public favor, add to its customary discounts, loaning on "accommodation paper," or on inferior security, or in some other way place more of its own notes in the hands of the ardent, confiding and impatient—those waiting to make ventures—than they have before thought it safe to do, and a beginning is made. Not often seen in the market as prominent purchasers, the happy recipients, thus equipped, go there, and with smiling faces and defiant air bid against the old buyers, raising prices. So soon as other banks did the same (example is contagious), inflation would have made important progress. Institutions having but little reputation, but credit enough to make their promises current could contribute largely to the movement, as much in truth as those in better standing. The increased volume of notes, from whatever source, would all be absorbed by the enhanced prices; nor would they be returned for redemption so long as the speculative excitement lasted.

Or the excitement might originate outside the banks, having its commencement perhaps in one of those inward tidal impulses which periodically make shipwreck of reason and common sense, and waken in a community a passion for buying, or gambling in goods and estate, always in the belief that a new era is at hand, that circumstances and the times have changed, and that property will rise, making those who shall be owners a week or month hence rich. At first not much money or bank credit will be needed, small cash payments, personal credit or secured notes serving in its stead. To set the ball in motion, all that is needful is to place new purchasers in the market armed with sufficient means of any kind to bid effectively. It would not be necessary they should finally buy. Striving to buy, or seeming to do so, would do as well, as may be seen at an auction sale, or among the stock-brokers in Wall street. Were no purchases made, the movement would prevent those in want from obtaining their indispensable supplies except at enhanced prices. When so much has been done the greatest difficulty is overcome. The rest follows naturally, and if no mishap prevents, the result is assured. Advancing prices generate and strengthen speculation, and make necessary more money for the transaction of business. More money sustains prices, feeds the excitement, and prompts to more buying. New emissions of circulating notes are required at every stage of the upward movement—notes which cannot or will not be withdrawn so long as "confidence" in the future (faith in false prophets) is unimpaired. If a small class, suspicious of appearances, sell out and retire, a more numerous one steps to the front and forces up prices again, making needful still more money, and so on till shipwreck breaks the spell. Before 1862, when the convertible note was in its glory in this country, we so frequently witnessed the progress of the inflation-lunacy that the events are familiar. We were then on a specie basis, but on every notable occasion the banks were largely, often ruinously extended in circulation and deposits, the giddy ones joining in the race early with rejoicing, the doubting and more conservative, at a later period, perhaps in self-defence—I speak here of banks issuing convertible notes without sufficient restrictions.

It is a note-worthy fact, explanatory of other facts, that speculative purchases, when prices are advancing, put an unusual amount of money in the pockets of the purchasers, enable them to control more of the funds of banks and individuals, and give them additional power in the market. By their influence as bidders, every day increasing, a commercial excitement, once begun, gains rapid and dangerous headway. Thus trade and the industrial interests of the country, to a large extent, are placed in the hands of speculators—a class often unfitted by habit, temperament and experience for any responsible and independent position in the world of business.

Bank officers are in a position of great influence, and can by concerted action do much to shape the course of business, but they are not omnipotent, are not always discreet, and have the longings of other men. They are expected to earn dividends, and the best of them cannot resist the temptation to do it in the approved way. If their customers, by reason of enhanced prices, stand in need of more currency, they are constrained to meet the demand. If more money than usual is offered on deposit, as there will be when more is in circulation, they will thankfully receive it, and loan that proportion which is deemed prudent, paying out their own notes, according to custom. In this manner, perhaps unconsciously, they are drawn into the vortex of excitement, and, while engaged in a regular business, and performing only a prescribed duty, do their part to encourage speculation and inflate prices. Bank men should be judged by the rules laid down for other people in responsible places, but it should also be remembered that their conduct draws after it consequences far graver and more extended than do the acts of ordinary mortals. Within certain limits, they have in their control the common currency, the accepted medium of exchange and measure of values. By means of convertible notes and loans, they can, if united, make money abundant or scarce, put up or down the rate of interest, increase or reduce prices, expand or contract the measure of value, plunge into or save from bankruptcy, stimulate or paralyze industry, etc. Perhaps it is not quite sufficient to say that, as a general rule, they are not disposed to abuse their privileges, and that ambitious and irregular action is opposed to the best good of themselves, their stock-holders and customers. Nor is the feeling of insecurity and apprehension at all relieved by the fact that other classes, strong in a financial sense, may exert a degree of the same influence. Combination with power is, in truth, a perilous instrumentality, capable of the most varied and grinding tyranny, by whomsoever employed, as we have frequent cause to know and deplore. One of the main objects of a good government is to deprive individuals and classes of the ability to do wrong, withholding dangerous power even when self-interest would be against its abuse.

For common uses, the convertible note is the most convenient and efficient form of a circulating medium pretending to have an uniform value. It is cheap in cost, easily counted, light, portable and comparatively safe; a hundred thousand dollars may be carried about the person, without exciting suspicion. It will do more work, that is, it will settle a greater number and larger amount of business transactions in the same time, with an approach to equity, than any other kind of money. In the combined qualities of easy movement, celerity and complete adequacy as an implement of the market, it is without a rival. For heavier work and perfect security, the check has an important advantage. A check drawn against a deposit or bank credit is not itself money, properly so called, as before remarked, but an order for money. Once for all it serves as a substitute for the latter, and is seen no more. It does not pass from hand to hand, except occasionally in the way of barter, but goes by the shortest road directly to the party addressed for payment. It is however an instrument of vast power, effecting by virtue of a few strokes of the pen the exchange of tens of thousands. The deposits of which it is the key have great mobility—an expansive and contractile power next in rank to convertible notes, with advantages and disadvantages too conspicuous to be overlooked. In specie-paying times they are themselves convertible into coin (now into greenbacks), at the pleasure of the depositor, and at the present day usually constitute the greatest share of the immediate liabilities of the banks. They grow out of fresh discounts, or the daily cash balances of merchants and business men, and are paid in money or by ledger-transfers. In most cases paying no interest, there is an unquenchable desire for their accumulation, and an inducement to loan them in too great proportion, or on inadequate security. When this is done, enhanced prices, an increased volume of business, speculation, and all the phenomena of inflation, daily becoming more apparent, are produced or promoted. When more checks, doing the work of money, are offered in the market, prices are enhanced, and the currency as effectually depreciated as it would be by the issue of more paper dollars. Under these circumstances, when the reserves or cash resources are much reduced, having gone into bills discounted, as always happens in a time of expansion, if a sudden call be made by timid depositors looking out for rough weather, some of them in want of gold for exportation, a stringency followed perhaps by tumbling prices and a crippled business, is the result. Though an increase of loans may proceed a certain length without the aid of more currency, the enlargement is greatly facilitated and extended by the issue of additional notes. A restricted supply of the latter not only embarrasses the loan market, but is a constant drag on the upward tendency of prices—squeezes the life out of speculation; and it is doubtful whether large progress could be made in a skyward direction whilst the restriction continued.

In succeptibility to impressions, and the power of prompt expansion and contraction, called elasticity, the convertible note ranks first, deposits controlled by checks second, and specie third. Any needful qualities which the two former may have, as measures of value, are due to their convertibility on demand into the latter. They are exceedingly flexible. With headlong haste they yield to pressure, and adjust themselves to the oscillations of industry and trade. But these qualities, so liberally provided, are not easily controlled. They are indispensable, or nearly so, but the question is whether, in the cases referred to, they do not exist in excess; whether the attendant evils do not transcend and over-balance the good. So far as the convertible note is concerned, my conviction is that the evil preponderates. The reasons for this may in part be gathered from what has already been said. The remarkable flexibility of the note is due to a precarious and explosive element, credit, which is its basis and support, and which in critical times, when confidence is wanting, is not sufficiently stable. When the skies are particularly bright and enterprise needs curbing, it yields to the slightest impulse, and proffers aid without stint; but in seasons of storm when the strain is applied, breaks down utterly, or retires to the caves whence it came. When the people are crying lustily for more money, a forced bank contraction deprives them suddenly of that which they before had. It is a note-worthy fact that panic comes at or near the time when confidence is greatest, when expansion has reached its farthest limit, and monied institutions are least able to meet unaccustomed calls. In their haste to cancel their obligations and escape bankruptcy, the public is left almost without a currency. A severe stringency, under the pressure of which no business can long live, is the result. Were the common currency gold and silver coin this could not happen, or could not to the same extent. The holder, though confidence should fail in everything else, would not lose his faith in that. It is his own labor and sweat solidified and stamped. Stable, storm-proof as it were, it needs not to be converted, and will be as good to-morrow as to-day. In a time of upheaval the banks are crippled by vain efforts to supply it in exchange for their own (perhaps distrusted) notes, and thus sustain their tottering credit. Before the war, in periods of alarm, the conversion of one paper dollar into specie compelled a contraction of five or ten dollars in notes and discounts.

In quiet seasons, when confidence and credit are not wanting, the convertible note makes a good enough circulating medium; but it fails when financial excitement has taken hold of the people. The very qualities which have most recommended it are sources of danger, and weighty reasons for its condemnation. As we have seen it, it is too mercurial; has an excess of mobility, and yields too readily to the forces which determine expansion and contraction. So quietly does it come forth; so little present disturbance in the money-market does it occasion, and so convenient is it for all parties in interest that it is largely used to foster speculation, and promote schemes which should be nipped in the bud. Were metallic money employed in its stead, the stringency produced by any new and factitious demand would tend to check the movement, and save the unwary. Theoretically, the over-issue of notes is, in any contingency, prevented or cured by a call for their conversion into coin, but practically this check is not applied in season to prevent disaster. The redundant paper, in truth, is rarely presented for redemption till confidence and credit have received a shock, and then the damage has been wrought, and its presentation would only aggravate the evil. The remedy for excess—one of the "heroic" sort—is reasonably sure if used efficiently and with judgment when the excitement needs curbing, but will extinguish the little vitality left if pushed in the stage of panic and collapse.

A reasonable and effectual check to expansion by the over-issue of convertible paper is not furnished by any of the known systems of redemption. No doubt voluntary arrangements among the banks themselves designed to secure this may be of signal service. The old Suffolk system, for instance, did much excellent work. It compelled the banks of New England to redeem their notes at the designated agency with Boston or New York funds. Each bank received the bills of every other, and forwarded them at short intervals to Boston, getting their own in return. The device tended to keep the circulation of each institution within proper limits, and to prevent encroachments on territory naturally belonging to others. Thus was given to six states a more uniform and equal currency than had been known elsewhere, on so considerable a scale, in this country. But the redemption which the system secured was a paper redemption. From first to last, not a dollar of coin appeared in any of the large payments which the plan required. The chief end sought, however, was obtained. Practical convertibility, not into specie but into New York or Boston funds, was rigidly enforced. Individual banks of the "free and easy" sort were restrained in their issues, and no one could go much faster or further, in this kind of dissipation, than the others. But inflation, when all moved together, and in concert with the cities named, was not prevented. If New York sneezed, every bank in New England felt the vibration and sneezed too. Clearly enough, the inadequacy of the system was illustrated and proved by the events which preceded the misfortunes of 1837, 1839, 1847 and 1857, when the Suffolk system was in full operation. Except when comparing it with others, the enconiums so liberally bestowed on it by Mr. Carey, Mr. Price and others are not deserved.

The clearing house systems of our larger cities, at the present time, are similiar in plan, objects and operation to the Suffolk scheme. They differ however in one particular. Balances are paid in legal tender money (now treasury notes), or in government certificates which will command it.

Nominal convertibility, then, aided, it may be, by systematic redemption in paper, gives no sufficient or reasonable protection against the evils of undue expansion. The latter may go on, not indefinitely, but to a disastrous length in spite of the safeguards which theory has pronounced ample. Practically, the convertible note system provides no check which is active at the important period when events are most easily shaped or controlled. When prices have advanced largely, and speculation is rampant; when importations have been stimulated by extravagance and a rising market; when the precious metals, repelled by cheaper money, have taken passage to other lands, and a foreign debt been contracted which promises will no longer pay; then for the first time, the "convertible privilege," intended as a check, is thought of as a means of relief—a refuge from the storm. Just when the banks are most expanded, and consequently nearly helpless, depositors and bill-holders call for specie, first to supply the foreign demand, then because suspension or something worse is apprehended. A sharp contraction is required, loans are refused, confidence is destroyed, and panic like a hideous spectre stalks abroad. With the destruction of credit, the convertible note proves a broken reed having for the moment little to support it. To supply an indispensable want however, it will continue in circulation, proving when attainable satisfactory as a medium of exchange, but quite uncertain as a measure of value.

In a time of financial anarchy, it is important that the money of a people should have a solid value, and be as far removed as possible from the hazzards of a tottering credit system. Where coin is used as the common currency, there is one thing at least, and that more active and influential than any other as a regulator and conservator, in which confidence cannot be shaken. Its presence is capable of doing much to calm apprehension—to convince the scared multitude that not all is rottenness and illusion, notwithstanding appearances.

In order to arrest a speculative excitement, the sure forerunner of panic and bankruptcy, the phrensy should be treated in its first stage, before it has gained momentum enough to make interference futile or dangerous. At that stage, when prices are beginning to stiffen, and all kinds of business are becoming morbidly active and speculative, it is comparatively easy to break up the fever, and restore trade to its normal proportions. This is most conveniently done through the intervention of money—a kind of money, acting automatically, which will resist steadily but firmly the enhanced and enhancing prices which are firing the popular mind. Of that kind is specie. It has a fixed relation to other things the disturbance of which is the evidence of disorder and impending reverses. A gold dollar will naturally exchange for as much labor as itself contains whether the latter be put into hardware, crockery or other goods. When it will command less of all commodities whose cost has not been increased, in other words when prices have generally risen, something is the matter, and health and safety can never return till the normal relation is restored. As already suggested, the convertible note offers little resistance to this upward movement—the true, proximate and sufficient cause of every financial tempest. But specie has, in time of need, the necessary degree of rigidity. It will yield readily enough to the wants of legitimate business, but not suddenly and largely to meet an artificial or fictitious pressure. It cannot be extemporized; cannot be ground out to order by a paper mill. Labor and capital are required for its production or purchase, and it may be necessary to bring it from a long distance. While the adventurer is impatiently waiting for it, pinched as he is by a stringent money-market caused by the unaccustomed demand, his courage is liable to fail him, a wholesome consciousness that he has been deluded taking its place. Nothing so effectually chills the ardor of a rampant speculator as a limited supply of money. It injures his credit, forces him to sell before he intended, causes a general shrinkage of values, and thus dissipates his cherished hopes of sudden wealth. Men of this class are always opposed to contraction, and in favor of that kind of money which permits immediate and indefinite expansion.

V.

State Banks—Now the time to get ready for Resumption.

In my remarks on convertible notes, I have had in view those used in this country previous to the late war, having special reference to the better of that class which were issued by the banks of New England. Practically, there was no limitation in the amount except that which a self-imposed system of redemption enforced. The law requiring payment on demand in specie had little effect except as a desperate and impossible remedy in extreme cases. When once the provision enjoining a small legal tender reserve "in coin or bullion" had been complied with, it inspired no terror, and imposed no restraints. In Connecticut, this reserve, "not less than one-tenth of the circulation," was to be "kept in the vaults of the bank," the penalty for using it for any object whatever being one hundred dollars per week. Naturally enough, it was considered as so much idle capital, unavailable for any solvent purpose, and making needful a more profitable use of the resources which were left. The banks, as they do now, depended for individual safety on the goodness of their bills receivable, and favorable balances in their dealings with each other. Those which, when the daily or weekly settlement was made, were creditors, had reason to think themselves sound and safe, while habitual debtors gave evidence of weakness. Nor am I prepared to deny that the method which placed an institution on the creditor side in the way of business was good banking; but the system permitted great evils and invited abuses, as already explained. A single very large and strong bank, inexorable in its demands and impelled by its fears, could, without endangering its own solvency, cripple half a dozen others which had impaired their resources by extraordinary efforts for the relief of their customers and the public. This exercise of power by one over another, in the last panic, was, among themselves, measurably prevented by the associated banks in New York city—prevented by expedients which enabled the weaker, at some cost, to use their unquestioned assets, for the moment unavailable, in the settlement of balances.

But when I think of the deplorable evils growing out of our inconvertible and depreciated currency, and its possibilities for mischief; its volume and consequently its value depending on a majority vote of a fickle, inconsiderate and party-shacked Congress, I am, for the moment, disposed to look complacently on the old state bank system with its multiplied abuses—the convertible notes it authorized, and the flood of small bills, (" wild cat," "red dog" and the like,) often at a heavy discount in the central markets. Nor would I speak with too much severity of the scanty stores of specie, the exhilirating expansions, spasmodic contractions, and periodic disruptions, the succession of events reminding one of fever and ague with endless repetition. Of this system it may be said that, whatever its short comings, it kept in sight, if not within reach, the constitutional standard of value, and showed by signals intelligible to the observing when we had departed from it. It did not wipe out contracts, alter the terms of a bargain, strip individuals of their natural rights, make rags legal tender, confiscate property, or sanction injustice and oppression. The injury it could inflict, though not inconsiderable, was limited and measurable. Periodically and infallibly, about once in a decade, usually after a financial convulsion, it brought us back, through much tribulation and the greatest sacrifices, to the standard we had left. No doubt its instability tended to weaken, but it did not obliterate the moral sense. It did not rear up and sustain classes of public plunderers, official thieves, swindlers, and criminals of every grade to be compared in adroitness, depravity and audacity with those of our greenback era. I imagine that the better generation which lived twenty years ago would not have endured patiently for more than fourteen years a currency depreciated from sixty-five to five per cent., and never at rest. A needed reform in money matters, in consequence of worse morals, seems now far more difficult than it would have been then.

I am aware that the convertible note has the confidence of many practical bankers, and distinguished writers on monetary science. To a notable extent, it is their ideal of a perfect currency, having as a medium of exchange unequalled advantages, as a measure of value, reasonable certainty. In their view, the evils of our present system—depreciation, inflexibleness and uncertainty—are all due to inconvertibility, and would be corrected by a redemption in coin. The more pressing of the evils complained of would, no doubt, be removed by the measure proposed, but that alone would not complete the work necessary to be done.

Having reached specie payment, what shall be done with the greenbacks? Shall they be withdrawn from circulation, or will the issue be continued in the form of treasury notes payable on demand in coin? To say nothing of constitutional right, comparatively few, I think, will contemplate with satisfaction any permament legislation authorizing the government to supply the paper money of the country. Till our rulers can discharge better the functions necessary to the existence of the republic, it will not be wise to impose on them more difficult and important duties not essential to the public welfare, and which may better be trusted to private hands. The paltry sum to be saved in interest would be no sufficient consideration. Instead of multiplying the responsibilties and extending the powers of the general government, the remaining time of the present century should be occupied in restricting and more clearly defining both. War and currency dissipation have introduced abuses and encouraged practices which cannot be corrected in less than a quarter of a century of hard well-directed work. But if we must have greenbacks for money, let them, by all means, be irredeemable and legal tender, the volume to be fixed irrevocably by constitutional amendment. Thus a cheap, "non-exportable currency for the people," would be supplied—one which, if limited in its amount, could be maintained at the specie level. If no more, say, than three hundred million were allowed, and this were the only paper money permitted, there would be a large demand for coin to make up the deficiency. Thus we should have a circulating medium, part paper and part metal, having as much stability in value and flexibility in volume as if it were all specie. It would be self-regulating—fitted by the slowly yielding qualities of its metallic element to conform to the ever-changing condition of the country and of business. The power of self-adjustment would of course depend wholly on the last named element—an element which should be proportianally large enough to permit without disorder all needful contractions. Under a system of this kind, the currency in use would not be curtailed by the exportation of a few millions in gold except to the extent of the shipment. It would be placed beyond the reach of unwise legislation, and could not be manipulated by wily politicians. It might not satisfy the dreamers and schemers in financial science, or the speculators in business, or the many who would be richer if money were of less value; but it would encourage industry and thrift, promote justice and honesty, and improve the morals of all classes.

In case specie payment should be resumed, and legal tenders finally retired, the question will be asked: Shall our present national banking system be perpetuated? Resting on a coin basis, it would be far preferable to the old state system, and better probably than any other having a chance for adoption, or which would now be tolerated. It should be free, the circulation abundantly secured, the redemption agency continued, an ampler reserve than now enforced, and small bills—those, say, under fifty dollars—suppressed. The last important provision would bring the precious metals into general use, and permanently increase our stock for exportation and other purposes. As the convertible note is least able to furnish assistance when assistance is most needed; and as the distress caused by the attempt to redeem it, in a time of peril, largely outweighs the relief which the specie thus obtained affords; it is obvious that when gold is wanted to meet a foreign or domestic demand, help should not be looked for in that quarter. It is true that inconvenient contraction is produced, when much coin is withdrawn directly from the circulation, but the contraction is equal only to the metal removed; while if the same amount be taken from the banks by means of convertible notes, a much larger and more embarrassing contraction follows. This comes of an earnest endeavor on the part of the institutions named to protect their vanishing and always scanty reserves, and thus maintain their solvency. To do this they must refuse discounts, retain all their own notes paid in, and in every way diminish promptly their liabilities.

With the reforms suggested, we should have a better currency than we ever had before—one certainly which could be endured till the close of the century. Convertible notes might still work mischief in times of speculative excitement by yielding too readily to factitious demands, but their power would be limited by difficulty of attainment. When the banks are required to pledge United States bonds to secure ultimate redemption, and are sufficiently taxed for their issues, they will be employed somewhat sparingly. Panics too might be expected, though these would not be as severe or destructive under a conservative system of banking, and rigid supervision.

It should be observed that bank notes secured by pledges of undoubted stocks are much inferior in flexibility to those which may be issued without legal and practical conditions or restrictions—are inferior because the system provides a check to the emission of circulating notes without capital. Under such a system a few aspiring individuals cannot establish a bank, emit bills for circulation, and inflate the currency without a surer foundation than pretension without the means of payment. Consequently, in times of wild excitement when the demand for more money is pressing, money cannot be supplied with sufficient promptness or freedom to satisfy the restless crowd of speculators. Certain fast-going institutions, already much extended, may wish to do it, but they cannot "put up" the securities, while those which have the ability to do so are usually suspicious and conservative, slow to act and fearful of getting hurt. This practical conservatism, voluntary or constrained, hinders and delays expansion, though it may at length give way to outward pressure. Whatever the final result, it will, for a short period at least, prove a barrier to advancing prices, a discouragement to speculation, and do what it can to quench the rising phrensy. If a financial catastrophe be not averted, its violence will be tempered.

There is another reason why the secured currency-note is better than the unsecured. In a panic, confidence in its soundness, considered as the evidence of property or value, is not easily shaken, as proved by experience in the fall of 1873. Nor will the ignorant and incredulous—those having no special use for specie—be so impatient for its conversion. Could they be convinced that the bill-holders would not be losers though the banks should all fail, their hot haste, ending in a disasterous "run," would give place to reason and common sense.

The present is the most favorable time for a return to specie payment since the period which immediately followed the war. The amount of domestic indebtedness is much reduced, and the class to be injured by any possible contraction of the currency is smaller than it has been for many years, or than it will be after business revives. Prices have fallen heavily, so that many things are as low as in 1860. The evils that were anticipated as the effect of resumption are already upon us, and whatever suffering has been endured is a contribution to its cost, which, if properly improved, need not be again exacted. If there were reasons for opposing the movement in former years, they have little force now. Millions of greenbacks and national bank notes, at present useless for want of employment, might be cancelled without any disturbance of the money-market. Not as much curreney would be required for the restored trade of the country as was in use at the time prices were higher. When its volume had been somewhat reduced, followed promptly by appreciation, every paper dollar removed would be replaced by a gold dollar, the whole having the same value and efficiency as before. "The tools of trade," so called, would not be taken from the people, but a substitution in part made, those of better quality taking the place of the discarded variety. Labor, even at the present rates, would be more liberally rewarded than before the panic; that is, the wages received would buy more bread, meat, clothing, shelter and luxuries than previous to the tornado of 1873. Business, when it returned, would be natural and healthy, and comparatively steady and durable. The numerous race of middle men which sprang into existence with the greenback, placing themselves between the producers and consumers and tolling both classes, would, to a large extent, find their occupation gone, and perhaps be compelled themselves to become producers.

It is often contended, sometimes by well meaning persons, that specie resumption may be best secured, and greenbacks be made equal to gold by measures which will "promote the industries of the country," and restore business to its former activity; but industry and business have no tendency to increase the value of the accepted dollar more than they have to augment the length of the accepted yard-stick. Both serve to measure the products of labor, and are not less or more perfect because those products are sold with difficulty, and labor is unemployed. Ten years ago, when trade was brisk, greenbacks were far more depreciated than they have been at any time during the last three years of stagnation. The difficulty with our paper money is this: it is short in measure, is at the mercy of the politicians, and has no certain value. With it we cheat one another, and by its influence have become, to a notable extent, a nation of gamblers. The evil will not cure itself; nor shall we "grow up" to specie payment. Legislation is required, at least enough of it to remove the great barrier to resumption—the legal tender law.

Should business revive before anything decisive has been done to forward resumption, the arguments now urged against it would be greatly strengthened. The class of objectors would obtain earnest converts among those unwilling to contend with new causes of disturbance—causes which might put to hazzard the opening prospect for better times. A currency-reform, begun at a period when business men were successfully struggling to repair their shattered fortunes, and drawing after it consequences which could not be forseen, would be suspected and resisted. Those who lead might admit its importance, but would probably desire to put off action to "a more convenient season." Should the present opportunity pass unimproved, it is most likely that another decade would go by, and another financial crisis have culminated before the public mind could be again turned toward resumption. If there be now those who would procrastinate when the reasons for immediate action are, viewed by the intelligence alone, overwhelming, the do-nothings and obstructors will be numerous when seeming prosperity, attended by rising prices and greenback-depreciation, again returns.

The best good of a long suffering people requires that a fixed policy on the money-question should be forthwith adopted and accepted; and as nearly all agree that paper and specie ought to be equal in value, immediate steps should be taken which, in due time, will make them so. If it be admitted that the volume of the currency determines its value, we have at all times the means to secure equality, and no excuse for delay. Nothing more surely hinders industry, and discourages enterprize than uncertainty. No evil is so much feared as that which is hidden, or seen dimly through the mist of doubt. The worst policy, if it be stable, is scarcely more injurious than a vascillating one. The business man is always watching the western sky, and will not make goods, nor will merchants buy them, when the financial prospect is unsettled. Against fire and flood, and the perils to health, life and limb he can insure; but the risks from a devious, faithless currency he must bear himself. Even in this adventurous age, when the insurance-man surprises us by his ingenious and multitudinous plans for our security, no one has yet had the courage to set up a "guaranty and indemnity company" for the protection of those exposed to the explosive action of depreciated paper-money. Under any system into which credit enters, all but adventurers and gamblers must have a trusty measure of value, and a future of reasonable certainty. Having these, they can adapt themselves and their business, with some success, to almost any conditions, and the changes which time may introduce.

To diminish the volume and increase the value of greenbacks, and thus prepare the way for resumption, Congress, without longer delay, should restore to the bill-holder the only privilege vouchsafed him in the original tender law, and which was wrongfully taken from him so soon as it became worth anything—the privilege, I mean, of conversion into a gold-bearing bond. One paying interest at the rate of four and a-quarter per cent, and run-running twenty-five years, with gold as now at one hundred and seven, would do excellent service. It would appreciate the currency slightly, acting most efficiently when money was abundant and cheap, and stopping work when money became scarce and dear. Moderately and safely, it would absorb the surplus notes for which there is now no legitimate use, preventing perhaps an inflation when trade revives, and the demand becomes more active. In this manner would be made the necessary preparation for resumption at the appointed time, January first, 1879.

VI.

The Interconvertible Bond as a Regulator of Volume and Measure of Value.

There are many schemes for resuming specie payment, most of them advocated by persons in quest of easy, frequently impossible, methods—methods which will cause no reduction in the volume of circulating notes. To some extent these originate in selfish motives or class prejudices, but in many instances men think the objects not inconsistent. No doubt there are honest persons who regard the differing values of specie and paper as owing to faulty or wayward movements of the former, and that the disparity may be corrected by some legislative device which, without disturbing any important existing interest, will drag down gold to the greenback level. They forget that this metal has for the time a natural and fixed relation to other products, and even to paper money, which cannot be changed by schemes or devices of any kind.

A plan proposed several years ago, and now urged pertinaciously by Congressman Kelley, supported by B. F. Butler, Peter Cooper, J. Watson Webb, Senator Booth, the venerable and distinguished Henry C. Carey, and others, has some new features, and deserves respectful consideration. Mr. Kelley is its best known and most earnest advocate. Its professed aim is, not so much to secure resumption, as to give flexibility and stability to legal tenders, and enhance their value. The inflationists generally throughout the country seem to have embraced the plan, perhaps because of a belief that, in some unknown way, it would make money plentiful and cheap. To speak briefly, it proposes that the government, having everywhere substituted greenbacks for national bank notes, should issue inter-convertible bonds, so called, bearing 3.65 per cent per annum interest (equal to one cent a day on one hundred dollars), "payable on demand [with accrued interest] in greenbacks." These are to be issued for sums of not less than fifty dollars each, and offered, to the extent of the demand, in exchange for legal tenders. That is, both bonds and treasury notes may be issued without limit, each in exchange only for the other. The former, Mr. Kelley thinks, would be largely sought as a safe temporary investment by banks, banking companies, savings institutions, and the people generally. This part of the scheme would act most efficiently when money was abundant and cheap. In times like the present, when business is sluggish and the demands for loans slack, the bonds would, to a limited extent, find a ready market. Those having idle funds on deposit or in hand, waiting the maturity of contracts, or a better opportunity to make purchases, would take them for the interest to be gained, incurring no risk. Executors, administrators, trustees and guardians would be similarly inclined. The banks, having the proposed authority to do so, would gladly exchange for them a large proportion of the greenbacks, amounting to tens of millions, which they are now required to hold as reserves. More or less, they would do the same with the surplus funds they are accustomed to loan on call. Other institutions having large immediate liabilities, like savings banks and insurance and trust companies, would find them an eligible security, far more trusty in squally times than ordinary loans, and sufficiently profitable to attract this class of lenders. Had the system been in operation during the last year, when money has averaged, say, three per cent "on call," it is probable that as much as one hundred million legal tenders would have gone into convertibles, depleting the currency to a notable extent, and costing the treasury, in interest, $3,650,000, a sum many think it could well afford to pay to somebody in consideration of its having had the use of, say, $400,000,000 thirteen years for nothing. Undoubtedly, the scheme would, for the moment, be a great boon to our banking and other moneyed institutions, enabling them to dispense with an important part of their unproductive funds, and thus relieved, to make better exhibits at the end of the year than they otherwise could. In very dull seasons, a "paternal government" would take the surplus funds of the people, pay for the keeping, and return them promptly whenever the money could be more profitably used. Thus the current rate of interest, on a certain class of loans, would be buoyed up in periods of depression so that lenders, at least, would be able to eke out a living; for it is evident that the rate could never fall below 3.65 p. c. "on call" when the government stood ready to pay that.

It is not probable that Mr. Kelley's bond would prove satisfactory to the multitude of small investors who are accustomed to place their earnings in the savings banks, though that gentleman thinks otherwise. In this part of the country, these banks, with some exceptions, are managed with prudence, paying with reasonable certainty five or six per cent. per annum, which rate depositors would not willingly exchange for a much lower one. But there is a serious objection of another kind to the bond in question. To answer its purpose, it must have every facility for instant conversion, and would doubtless be made payable to bearer. With this provision, it would be almost as dangerous to hold as money, particularly when in the hands of the working people who have few conveniences for safe-keeping, and to whose special wants it is expected to minister. Since the phrensy for money and money's worth has become epidemic, made so largely by a depreciating currency, a race of burglars, robbers, thieves and pick-pockets, unsurpassed in boldness and skill, has grown up, making securities of this kind a precarious kind of property, to be avoided most of all by those who now use the savings banks.

Undoubtedly, convertible bonds would absorb legal tenders when the latter were in excess, and worth no more to loan than 3.65 per annum. But this absorption would be checked or suspended when business revived, and the calls for money were more urgent. If trade became active, the rate of interest would advance, more currency would be needed, and bonds for conversion be taken to the treasury. At this stage, should stringency occur, indicating a short supply of circulating notes, the movement would be accelerated till a large proportion of those temporarily in retirement were restored to circulation. The greater volume of greenbacks, called forth at a critical moment, would tend to relieve the pressure, sustain prices, gladden the hearts of debtors and business men, and might under favorable circumstances, like the flexible, specie-paying notes, prevent serious reverses.

In the way indicated, the interconvertible bond system, worked by self-interest, would, it is claimed, favor expansion when trade and the public good required it. Within a limited range, it would have the kind of elasticity for which coin is distinguished. Bank managers and others would, to a certain extent, convert their 3.65's whenever they could use the money more profitably; but it is obvious that the severest pressure could not call forth *all* the notes which had previously been retired. Any reserves laid by in compliance with the statute would be kept (if kept at all) in interest-earning bonds. Administrators, trustees, savings institutions, etc., expecting soon to want legal tenders, would hold on to them tenaciously, especially when their supply was getting short, and the times were suspicious. Like a sponge, the friendly bonds, having power to absorb and capacity of storage, would yield up on pressure a definite amount of watered currency, but could not be squeezed quite dry. So far as anything remained, so far as conversion was prevented or delayed by considerations of any sort, the circulation would, as a net result, be contracted—contracted as compared with its volume before the system was introduced. Without reference to the result in this particular, when the compressed sponge had done its utmost, and no more legal tenders could be had, the scheme would break down hopelessly. Any further expansion to meet the wants of a more active industry, or a new emergency of any kind, would be impossible. Of a sudden, perhaps, however urgent the occasion, the currency would become unyielding, inflexible, ironbound, as it were, having in the highest degree all the defects it pretends to cure, and differing wholly, in this regard, from metallic money the supply of which is not cut off by the inadequate provision of any local system, but, coming as it does from all the world, is practically inexhaustible. But it may be said that the supposed result would be prevented by the relief afforded in the early and middle stages of the pressure, before the barrier to expansion (immobility) had been reached. The claim might be a plausible one were business always done on a healthy basis, and were the last notes from the treasury—the last squeeze of the sponge—sufficient to satisfy the existing and every possible demand. But, memorably, the fact is otherwise. Uniform health in the financial world cannot be presumed. There are frequent periods of wild speculation when goods and estate are bought and sold many times on their way from producers to consumers, attended by rising prices, enhanced profits, a greatly enlarged volume of business, and a correspondingly more active demand for circulating notes. When the excitement is highest and values most inflated; when trade is morbidly and dangerously active though in appearance largely remunerative, and every available dollar has been brought into service; then it is that the crisis is at hand. While business is still moving on at a break-neck pace, the fixed obstacle of an inflexible currency is encountered, and something or somebody breaks.

We want a currency which will, as far as possible, repress these speculative and dangerous movements in the beginning—one which, yielding freely to the legitimate wants of business, will apply the brake, steadily but firmly, when speed is becoming too great for safety. The object is not to stop movement abruptly, and thus precipitate a crisis, but to check it, to crush out speculation, and restore trade to its normal state. The convertible bond, while bearing so low an interest as 3.65, would give up the coveted legal tenders in the early stages of the excitement, kindling the fire, and then of a sudden refusing relief, possibly at a time when a further temporary supply might mitigate the pressure, break the fall from higher to lower prices, and perhaps save from shipwreck. Banks and bankers it is true might, at the last moment, convert the bonds they had held back as a reserve, but in doing so they would exhaust their resources wholly, without giving more succor than could have been afforded under the old system when they chose to release their coin reserves. Like the convertible bank note, and the other credit intruments used to facilitate exchange and disturb values, the Kelley bond, if I mistake not, would prove injuriously flexible in the early period of a financial fever, and destructively rigid at a later date; supplying fuel liberally when the supply should be restricted, and denying aid when denial might be fatal. As a regulator and remedial agent or agency when business and trade are distempered, it must prove a poor substitute for a specie currency.

No doubt the interconvertible bond, considered as an order on the treasury for greenbacks held as a special deposit for their redemption, would, in ordinary times, control or hinder the slighter and not very important fluctuations in the currency, promoting healthful contractions and expansions in answer to the calls of legitimate business; but at such times the old fashioned bank note payable in coin always proved sufficient. Nor is the fact that it must be powerless to prevent or curb the great financial phrensies which periodically sweep every highly civilized country, or to turn aside the final catastrophe and prolonged collapse which are but effects of the previous madness, a sufficient objection to its use. But to proclaim it a panacea, a sovereign remedy for every currency evil, is preposterous.

The truth is a public "craze" of the kind referred to, may originate and get under dangerous headway with only a limited dependence on the money market, as before intimated. All the paper remedies yet devised have fed the fire, intensified the excitement, refused "aid and comfort" at the critical period, and made more calamitous the downfall; and it is not reasonable to suppose that the convertible bond will set aside all that history has taught at so much cost. Not improperly, the claim may be made that, as a preventive of panics, it has no important advantage over the old time convertible bank note, confessedly imperfect as it is, and that it has some defects peculiar to itself as will appear in the sequel. As a regulator and standard of value for considerable periods and in tempestuous times, it will be shown to deserve no confidence.

In the preceding remarks, I have assumed that the legal tenders received in exchange for bonds would be kept in the treasury till called for by the holders of the latter, as they clearly should be. Were they thus retained, the bonds would not differ in their uses from the certificates of deposit which the government now issues to the banks for clearing house purposes, though more desirable to hold because of the interest they would bear. But Mr. Kelley's plan, as I understand it, does not permit this "locking up of greenbacks." "The whole amount received," he contends, should be employed to redeem at par six and five per cent bonds, the treasury thereby saving a large amount of interest, or the difference between the rates named and 3.65 p. c. per annum. Were this course taken, and the notes again put in circulation, there would be none of the proposed contraction at the outset; the assumed redundancy of the currency would not be diminished, nor its uniformity in purchasing power in any way promoted. Thus the scheme would be divested of one of its most important features—one essential to its subsequent successful working. Another result pregnant with disaster might be expected. Were the bond-holders' money expended in the way prescribed, there would of course be no redemption-fund left, and the government, when called on for payment, be compelled to issue more greenbacks, or confess bankruptcy. The former alternative would be taken, and the way opened to indefinite expansion. Nor would the proposed amendment of the original bill requiring twenty-five per cent of the notes received to be retained in the treasury (out of which the bonds presented might be paid) afford sufficient protection against the evil. A speculative, or even an active legitimate demand might soon exhaust this scanty reserve, driving the government to the printing press for supplies. On every recurrence of stringency, prompting to persistent conversion, new emissions would be necessary, never to be called in and cancelled. When a season of sharp pressure was over, the currency would be found more redundant than at the beginning, with no additional provision for reducing the volume. The bonds with the accrued interest would, as compared with any fixed standard, have less and less value in proportion as the medium in which they were payable was depreciated. Instead of buoying up a sinking currency, they would be the means of dragging it down to a lower level. While this was going on, the gold bonds to be bought with diluted paper would rise in the ratio of its dilution, making necessary a greater nominal outlay in each successive purchase.

There can be no doubt that the interconvertible bonds would produce expansion in another way. Were they issued of as low a denomination as fifty dollars, in accordance with the plan, they would—certainly to a notable extent—circulate as money like the present and former convertible bank-notes, passing, when much interest had accrued, at their face plus the earnings, and thus adding to the currency. The interest could be so easily computed on a 3.65 bond that little embarrassment would come from that. The banks, regarding them as equal to accepted sight drafts on the U. S. treasury, would willingly take them, and whatever they received their customers would not refuse. But if no bonds were allowed of a lower denomination than one thousand dollars, this objection would be partially obviated. They would then be used only in the larger transactions, for the same purposes say as the one thousand dollar notes now in circulation. The restriction, however, would place them quite beyond the reach of the "working people" and small investors who, it is claimed, would seek them largely. Only those obliged to keep on hand considerable amounts in cash funds would have use for them. To this class, undoubtedly, they would be convenient and profitable, as already suggested. Considered as orders on the treasury for greenbacks, no creditor would decline to take them. Nor could holders have any motive, till notes were wanted for smaller payments, to forego the interest, and present them for redemption.

In the above remarks, I have supposed Mr. Kelley's peculiar scheme in operation. But if the notes received into the treasury were not paid out till convertible bonds were presented for redemption, there could be no expansion, however small the bonds. On the contrary, the contraction would be considerable, as already explained.

Provided the volume of the currency were not increased, I agree with those who claim that the 3.65 bond, as to any effect it might have on the value of the greenback, would not be greatly improved by making the interest payable in gold. Whether so payable or not, the bond itself would not be worth par in currency to ordinary investors—those having no immediate liabilities, and caring little for the convertible privilege. Persons wishing a permanent, equally safe investment would prefer the plain government bond, or a good mortgage note, because of its yielding larger interest. Of two convertible bonds, one paying interest in gold the other in paper, the first would be most attractive to the class having use for it on account of its earning most. It would be a better "absorbent" than the other of circulating notes, and hold on to them more tenaciously when the demand for money increased; but neither would be sufficiently profitable to tempt the people generally. As the government credit now stands, a very long 3.65 currency bond would be worth, in gold, about seventy-six per cent., a gold paying bond about eighty-two. At these prices, no one would exchange notes equal now to ninety-three per cent., in gold, for either description of bond, losing in the transaction seventeen per cent. in one case, and eleven in the other. Of course a security of the kind named would have no tendency to appreciate legal tenders. The value of the latter would, as now, be governed exclusively by limitation or volume. Instead of being lifted, as claimed, they would lift to their own level so many of the bonds as were wanted by banks, bankers, etc., for special purposes. In order to shift the controlling power to the other side, and make a passive thing an active influence and agency, it would be necessary to strengthen the 3.65s by adding to the interest rate. A four and a quarter per cent. interconvertible gold paying bond, worth for investment say ninety-six per cent. in specie would have the requisite qualities, and at once take a commanding position. By reason of its greater buoyancy it would regulate and rule legal tenders, carrying them up from ninety-three to ninety-six. Freely and largely, in the present condition of the money market, they would imbibe circulating notes, and afterward when the times changed, yield them up reluctantly and sparingly, the contraction in the beginning exceeding the expansion at the close, so that, when the movement had ended, the volume would be diminished, and the value proportionally increased. The average amount of notes lying in the treasury and withdrawn from circulation would be considerably greater than it could be under the influence of the cheaper bond. The two classes of convertibles would give equal elasticity, but the high priced security would, as the final or net result, favor contraction to the extent say of three per cent., while the other, in a propable contingency (already referred to), would lead to expansion.

Should Mr. Kelley's scheme in any way permit the increase of circulating notes, it would be of prime importance that his 3.65 convertibles should be gold-paying bonds. Thus fortified, they would be worth, for ordinary uses, eighty-two per cent; and however recklessly legal tenders were issued, they could not fall below those figures—below the market value of the security for which they might at will be exchanged. Any additional issues would promptly go into bonds, the movement defeating every attempt at further inflation.

The claim that the 3.65 bond would lower the common rate of interest, and furnish the government with funds with which to pay off, ("five hundred million in six months," says Mr Kelley,) in a few years, the six and five p. c. gold bonds, leaving in their stead an equal amount of convertibles, and saving fabulous sums of interest, is of course extravagant, and based on a misunderstanding of the laws which govern interest. What is called interest grows out of the fact that certain persons have more and others less capital than they wish to employ in production in their own business. The lenders furnish the supply, the borrowers the demand, and the relation of one to the other, made known by competition, determines the rate. The latter is not lowered generally because a few, on certain conditions, or for an equivalent other than money, choose to make loans at 3.65 p. c., or below the general market rate. Such loans, prompted by the peculiar liabilities and circumstances of the lender, could exert no wider influence than they do now when made in large amounts at three per cent, on call, in Wall street. Profit, often confounded with interest, provides the fund out of which the latter is paid, but is not otherwise directly connected with it. Of necessity, it must be more than sufficient to pay for the use of capital borrowed, but with this limitation in one direction, it may be higher or lower, from time to time, without immediately disturbing the relation of lender to borrower. High profits, however, by offering new inducements to one class to employ in their own business their surplus capital, and to the other to enlarge their capital by loans, both seeking to share the enhanced gains, would erelong augment the rate of interest by diminishing the supply of loanable capital. This loanable capital, varying from year to year, commanding high rates in times of speculative activity, and low rates in periods of depression and discouragement, cannot be evoked by new bonds bearing a low and insufficient interest, nor by juggling legislation of any kind; but Congress can, by enacting wise laws, repealing foolish and wicked ones, and abandoning the "paternal system" of government, do much to give stability to business, uniformity to the loan market, and perennial prosperity to the people.

There is a very serious objection to the convertible bond, as the regulator of the currency, growing out of the instability of the public credit. Suppose Congress should authorize a four and a quarter per cent gold bond of the kind suggested. In process of time, it might become worth, in the general market, par in coin. Greenbacks, through conversion, would be carried up to the same level. While appreciation was going on, there would be contraction, a fall of prices and a money pressure, relieved at intervals, but not cured by reconversion—a contraction of the same kind and degree as that caused by cancellation, or by any movement toward resumption. The volume of the currency would adjust itself to its newly acquired value (value of its units). The bond, by its coercive power, would regulate and govern both. When paper had become equal to specie, the two would circulate side by side neither having a preference except in the way of convenience. Could the bond be persuaded to remain at par, the system would work well undoubtedly, but suasion could not secure that result. A day or a week might bring a change, and the equality spoken of be destroyed. Should the bond rise say to one hundred and two, greenbacks would be worth more for conversion than circulation. Consequently they should disappear, leaving the void to be supplied by the cheaper medium, specie. While the change was in progress and not completed, there would be a short supply of money, and a tendency to lower prices. If then, owing to a change in the financial out look, the bond should fall below par, say to ninety-eight, coin would be withdrawn as too valuable for money, and paper alone constitute the circulating medium. Temporary confusion in the money market, the re-appearance of retired greenbacks, and the milder symptoms of inflation would ensue. These fluctuations or pendulum-like movements of the convertible bond, the proposed measure of value, passing from one side to the other of the world's standard, obedient to a hundred unforseeen influences, and compelling frequent changes in the medium with which payments are made, would be an intolerable evil—an evil not to be avoided, even partially, except by the use of a bond at a lower rate of interest—a bond which, consigning the greenback to perpetual degradation, would never rise to par. The 3.65s would, I think, have the requisite poorness. In value for investment purposes, they would not soon work up to a point in dangerous proximity to the gold level. Inside their natural limits, like the four and a quarter per cents, they would move up and down, having a range, not of four per cent merely, but, it may be, of twenty or thirty according to the times.

The public credit is, in truth, too precarious and indefinite for adoption as a measure of value, even for short periods. It is and must be of slow growth; is exposed to a hundred disturbing influences, and has not half the stability of the best private credit. Fair and full of promise to-day, cloud and storm may envelop it to-morrow. A great foreign war would knock it down ten or fifteen per cent, and the loss of an important battle half as much more. Aggressive movements on our part or the part of other nations, domestic strife, threatened repudiation, a large radical element in Congress or among the people, as well as financial embarrassment and a restricted money market, would similarly affect it. At an early period during the late "Rebellion," United States six per cent ten years gold bonds were sold at eighty-three in coin. Soon after the upheaval of 1837 and 1839, when the national debt had been paid, the government tried in vain to borrow money in the markets of Europe on a six per cent bond. In the comparatively insignificant war of 1812, the treasurer, at one time, was obliged "to issue in stocks $4,266,000 to obtain $2,500,000" (Hildreth), and the contest was brought to a close partly on account of the seeming impossibility of raising funds to carry it on. Only a few months ago, when immediate war was threatened between Russia and Turkey, the securities of the former, which had previously stood well in the London market, fell in one day seven per cent, in two days twelve per cent, and in a week nearly twenty per cent.

A currency whose value depends on any bond liable to these wide and perhaps sudden fluctuations, needing at frequent intervals the interference of Congress to adjust the supply to the demand, and the standard of value to changing circumstances and conditions, would not promote justice, or in any way be an improvement on that which has so long afflicted us.

In one thing I agree with the school of Mr. Kelley. No doubt greenbacks ought (if anywhere) to be legal tender at the custom houses. Had they been so from the first, over-issue and depreciation to the extent at one time of sixty-five per cent. would not have been permitted. The protectionists in Congress, rejoicing in undisputed power and the new tariff, must have interfered to prevent it. Nor would they have allowed that eminently wise provision making greenbacks convertible into twenty year six per cent. gold bonds to be repealed. Had they felt that every new emission in effect diminished the duty on imported goods, and made themselves and their friends at home equal sufferers with others from the evils of depreciation, the mischief to be wrought by inflation could not have been ignored. Nothing more surely leads men to think of consequences, and to help others when helping themselves, than self-interest. It is true, the effects of more currency might have been counteracted by successive additions to the tariff; but such additions must have been too obviously for the benefit of a single much favored class—a class never better able to make sacrifices—to be popular. Besides, the downward course of paper was so rapid that legislation, however agile, could scarcely have kept up with it. When protectionists saw that their new advantages and present opportunity were slipping away with fearful haste, and that repressive measures of a decisive kind must be taken, they would have stood up, an invincible band, against greenback degradation, and the causes leading to it and perpetuating it.

Should treasury notes now be made receiveable for customs, home producers of a certain class would seem to lose in protection the difference between notes and coin, but the compensations should not be overlooked. The opening of a new field for their employment—the additional work required of them—could not but enhance their value. How much the advance would be no one can safely predict, though it ought to be at least appreciable, and sufficient to cheer the friends of a better currency. As a consequence of the movement, some millions of notes having been diverted into new channels, there would be in ordinary times, but not now, a degree of stringency, the symptoms having the same characters as those produced by the general locking up or cancellation of greenbacks. Resumption, approached in this way, would be no easier or more attractive than if begun by calling in and blotting out superfluous paper. In whatever way the end be sought, the same obstacles, greatly magnified by the timid and the knavish, must be surmounted.

VII.

Some Commercial Reasons assigned for delaying Resumption.

Many are the reasons assigned for delaying resumption. One of these, our foreign indebtedness, is often repeated by business-men, and is very generally thought to be formidable. To the people of Europe we owe a very large sum. For the last few years, and particularly since irredeemable paper began its reign, the amount has been increasing at a fearful rate. Our bonds and obligations, national, state, municipal and corporate, must now be equal to more than two thousand million, in many cases bearing a high rate of interest. This immense amount has been received in iron, woolens, cottons, silks, teas, coffees, etc. A large proportion of the whole represents the losses by war, speculation and unremunerative investments. So much of the debt as shall not be wiped out by repudiation or bankruptcy, must be paid, interest and principle, by the shipment of cotton, tobacco, flour, petroleum, pork, cheese, gold, silver, etc., the products of our industry and economy, for all of which, to the extent of the debt, no return can be made. It is indeed a grievous burden, but the compensations and offsets should be considered. When the proceeds of foreign loans have become a part of the capital of the country which is actively employed in the work of production, the benefits have doubtless been found to exceed the sacrifices—the benefits, I mean, of borrowing in the foreign instead of the home market. The remittances received in exchange for the large proportion of the bonds of the United States transferred to foreign holders after the war contributed, in an important degree, to replace the much needed capital destroyed in the contest, and to mitigate the evils growing out of the enormous waste. Had it not been for the blighting influence of a depreciating currency, it is fair to conclude that the capital thus obtained would have earned more than its cost in bonds. It is not pleasant to be in debt, and share with others your earnings; in itself considered, only fools call it "a blessing;" and none but those who can employ productively more than they own can be justified in becoming debtors. But to the individual, it matters little where his borrowed capital comes from—whether his creditor is a fellow-citizen or foreigner. It is as easy to pay £1,000 and the interest on it in London as to pay $4,860 and interest in New York, and easier if in the former place the interest be lower. It is true, a portion of the gain will go abroad if an Englishman or German be the lender, but the net profit will remain as a clean addition to the wealth of the country—an addition created by foreign capital, and which could not have existed without its agency. Were the needed loan obtained in our own markets, capital would be taken which was wanted in some other business while no addition was made to the aggregate production of the country. Besides the net profit, new capital, whatever its sources, increases the demand for laborers, puts into their hands the tools of industry, introduces labor-saving machinery, augments the rate of wages, and meliorates the condition of the people. Were it not for outside help in the form of loans, our resources as a manufacturing, mechanical, agricultural and commercial population would be far more limited than they now are. When I say this, I do not forget the reckless, self-destroying way in which we often contract debts. It is a national infirmity.

So long as the interest of money and the profits of business are much lower in Europe than in this country, capital will flow hitherward making a foreign debt inevitable, unless, indeed, our friends abroad choose, on second thought, to give us what they now lend. I imagine the amount will not soon be largely reduced, and that those who would postpone specie redemption till this is paid consent to put it off indefinitely. As a class, debtors may be injured by measures which appreciate greenbacks and restore specie payment, but those who owe pounds sterling in England cannot suffer. Whatever may be our standard of value, and however frequently we may change it to promote swindling among ourselves, that by which the obligations to outside parties are measured is fixed by laws which, fortunately for them, we cannot set aside.

It is a great mistake to suppose that a foreign debt, or any part of it, must of necessity be paid in gold. Gold is the measure, but need not be the medium. No stringency, no disturbance in the money centers of England and Germany signalized the borrowing in those markets of two thousand million and its transfer, and none in the United States should attend the payment, in a business way, of the like amount. As the supply of precious metal there was not made inadequate by lending and remitting, so no inadequacy here should await similar remittances in the way of payment. Unless our great staples are too dear, they—probably they alone—will be taken as the most profitable means of satisfying every claim. If they cannot be taken advantageously to Europe, they may be, perhaps, to the West Indies or South America, and bills drawn against them sold in London or Hamburg. If goods, as measured by gold, be too high for exportation, the fact will be indicated by an advance in sterling or other exchange. When this advance has reached the shipping point, coin or bullion will be taken as the cheapest remittance; but this movement will soon be checked by the changes always wrought by the transfer. The removal of a few millions from one country to another causes comparative stringency, cheaper production and lower prices in the former, and expansion, increased cost of production, and higher prices in the latter. As a consequence of this favorable alteration in both the factors concerned, the commodities which in the treasure-exporting country were before too dear for the foreign market may be shipped with a profit. The same causes which stimulate this movement of merchandise discourage importations till the adverse "balance of trade" is adjusted, and the whole debt, interest and principal, due and becoming due, is discharged or provided for. This frequent shifting of specie (bullion), leaving the places where it is degraded by excess, and going where the supply is scanty and the value enhanced, so adjusts prices to circumstances and special needs that every people, not crushed by government interference, is able to furnish for commerce precisely the articles which natural or acquired advantages—soil, capital, skill, &c.,—best qualify it to produce cheaply. This movement, the effect of course and not the cause of the advantages referred to, is entirely conservative and beneficent, making foreign trade both possible and profitable, and causing its revival when fetters and unjust burdens have been imposed.

By the agency of the precious metals, the industrial interests of widely separated communities are placed and preserved in harmonious relation, while disturbing and hostile influences of every kind are neutralized or counteracted. When Congress for the benefit of one class and the injury of another imposes unreasonable duties on imports with the intention of preventing the competition of foreign with domestic producers, the international money, bullion, does all that is possible to preserve trade and repair damages. For a season gold is imported in place of heavily taxed goods, but so far as it becomes a part of our currency, it is wholly unproductive, adding not the smallest fraction to our capital or wealth. Considered from a national point of view, the cotton, rice, flour pork, etc., given in exchange for it, are, in an important sense, presented as a gratuity to our rivals abroad. A carefully prepared inventory of all the property in each country, estimating everything by quantity and productive power, would show this result. In the true sense, specie or money is not capital, as before stated, and has no productive power. The nation losing it in the way of business, loses nothing; the nation gaining it gains nothing; but trade is sustained, and both parties are profited, in the manner explained.

Any considerable flow of gold to our shores, of course, contracts the currency in other markets, and expands it in our own, giving "outside barbarians" unaccustomed advantages in the cost of production. With us, prices rise gradually till the excluded and now cheapened commodities can be floated over the duty into our ports again to compete with our products. In the interval, however, the protected classes, having got control of the much enlarged home-market, are able to obtain better prices for their goods, and before wages advance, as they ultimately must, to make large gains. To the extent that they are benefited, those who provide exportable articles are damaged. They are damaged because diluted and depreciated money at home increases their expenses, while the enhanced value of gold abroad (equivalent to a lower level of prices) compels them to sell at a sacrifice. The producers of cotton, etc., in the Southern States, who always complained that a high tariff which put money in the pockets of northern manufacturers did great injustice to them, were right in principle and in fact, as erelong all will admit.

Take another view of the foreign debt question. The par of exchange on London is say $4.86; that is, $4.86 in United States coin contain as much fine gold as an English sovereign, and will buy in New York a bill on London for one pound sterling—will, I mean when exchange is at par, coinage free, and no account taken of the cost of shipping gold. Now this par, depending on the equivalence of equal quantities of metal in different places, is in the nature of things fixed. Except temporarily, whatever the amount of foreign indebtedness, exchange can never rise above or fall below the point named, except to the extent of the cost of shipping it, including of course insurance, the loss of interest, etc. Always $4.86 in New York will be the natural equivalent of twenty shillings in London. This equality is not disturbed except when a floating debt, probably unforseen, must be paid, or international prices need readjusting. When once disturbed from any cause, exchange, so soon as the disquieting influence is removed, and the necessary transfers of gold effected, returns to par, there to remain until again unsettled by the course of trade, or the state of the markets. An alien debt, once contracted, requiring the payment of one hundred million annually, in divided sums, at fixed periods, could have no certain effect. Exchange might fluctuate slightly, moving up and down to correct the mistakes of merchants, and protect trade when momentarily embarrassed; but no gold would be shipped merely because a debt existed. If for a transient and special purpose the metal were taken, it would be returned when the emergency was passed, and a profit could thereby be made. In foreign trade, it performs the same office, and is exported for the same reason as any commodity worth more abroad than at home. From the latter however, it differs in one important particular. Temporarily or permanently, in the countries participating in the movement, it readjusts prices generally for the benefit of commerce, and the good of the people. Only debts already due, or soon becoming due, causing an unusual demand for remittances, can raise exchange, stimulate the greed of exporters, and draw treasure from its resting places. In spite of the large amount of interest which we pay to Europe, equal to several scores of millions yearly, and notwithstanding we are the largest producers of the precious metals for export in the world, the balance of trade, and the price of foreign exchange often cause these metals to flow hitherward, as they are doing now, and as they have often done before, for short periods, in the last twenty-five years. Prime sterling sight bills are worth $4.84, and to-day, November 4th, 1876, says a telegraphic dispatch, $860,000 have been drawn from the Bank of England, and shipped for New York. The merchants concerned in this movement are not deterred, in their pursuit of gain, by the fact that we owe to Europe a large funded debt—a debt for which the proper allowance has been made in every new distribution of the gold supply by which prices are regulated. The necessary payments are provided for by merchants seeking a profit, perhaps without knowing their own agency in the matter.

With us, the present inward flow of gold shows that, for the moment, the relative specie prices of exportable goods are too low in this country and too high in England, and that an equalization is demanded in the interest of commerce. When this end has been attained, a counter current may be expected—the old outward current which, for a quarter of a century with occasional short interruptions, has been setting towards the East, carrying away the surplus product of our mines, but leaving all which our own business-interests require. If we omit this surplus product, and make the proper allowances for those years in which we have paid interest or increased the principal by more borrowing, a careful comparison will doubtless show that, since we have owed so much abroad, no more precious metal has been exported than imported.

Whenever a large foreign debt exists in a permanent form, and borrowing is at an end, the exports must steadily exceed the imports. On no other condition can either interest or principal be paid. What is called the "balance of trade"—a balance to be paid in gold at the end, say, of the financial year—is no more likely to be against than in favor of the debtor country; nor can the accruing interest, becoming due at regular periods, have any effect after trade has once been adjusted to the existing relations of the parties. All are provided for by the foresight and sagacity of merchants and business men, and such distribution of the international currency as will make profitable the requisite excess of exports over imports, is secured. Abroad as well as at home, large sums may be paid, if becoming due in frequent small installments, without financial disorder. An adverse balance, happening under these circumstances, would be promptly discovered, perhaps anticipated, by those whose interests were liable to suffer, when a sufficient corrective could be applied. If I mistake not, the apprehension of losing precious metal to our injury, on account of unfavorable balances—balances caused by foreign indebtedness, and the remittances required for interest—has no substantial basis, and should not interfere with resumption. Our mines will supply all we need for every purpose, and more than our good demands.

According to the old and once famous mercantile theory, the benefits derived from foreign commerce are wholly due to the gold and silver which may be wrung out of it. These metals, it was contended, are the only true riches, and the exchange of commodities with other nations is profitable or otherwise in proportion as these are gained or lost. Consequently, true statemanship consisted in the adoption and enforcement of measures which will increase exports and diminish imports, thus securing a favorable balance of trade, and the influx of the coveted metals. A war of the custom houses, bitter and prolonged, grew out of these views. Strangely enough, the theory, in a mitigated form, still maintains its hold of certain minds, particularly of the commercial class. There are those among us, men of general intelligence, who contend that resumption should be deferred not only till our foreign debts are paid, but till a favorable state of the exchanges causes gold to flow, steadily and continuously, into the country. Of course a flow of this kind is impossible, not to say undesirable. No more difficult would it be to heap up indefinitely the waters of the Atlantic on our eastern border, draining the bays and harbors on the other side. As often as the natural level is disturbed, the counter-currents or under-tow will restore the equilibrium. Treasure never moves, on a considerable scale, from one place to another except to secure a juster distribution, or to equalize the supply. By an economic law as persistent as the desire for gain, the movement must cease when the end has been attained. Except as local and temporary causes interfere, the outward and inward flow must be equal. Legislation may momentarily change the current, but it cannot abrogate the law. Nor would the perpetual influx of the precious metals, without reference to the legitimate demand for them, prove of the smallest advantage. On the contrary, it would destroy the usefulness of the established measures of value, and introduce evils of the same kind as those caused by paper inflation.

It must be said, however, that in ordinary or healthy times when gold is coming into a country, and money is being cheapened, business is active and trade prosperous—prosperous, or seemingly so, because prices move upward, debts are easily paid, confidence is reënforced, and a speculative spirit generated. The prospect of getting rich speedily stimulates enterprise, encourages the industrious classes, and increases production. The general thrift, temporary and often delusive, which results from a favorable balance of trade, or follows increased duties on importations, is largely due to a sudden accession of precious metal, and the consequent depreciation of the currency. Prosperity beginning in this way, and sustained only by cheap money, is usually transient, lasting only while the tide is rising; but sometimes it runs into more durable and unhealthy excitement, ending perhaps in commercial disaster.

A people having unusual facilities for production—a rich soil, abundant capital, cheap power, superior machinery and tools, and skillful artisans—are able to supply goods, particularly of the manufactured kind, in large quantity and at small cost.

They have all the elements of substantial wealth, while labor is invested with extraordinary efficiency. The products of industry are greatly increased, and a large surplus furnished for exchange. With these advantages, a rich country will underbid its rivals in the markets of the world, and for a season sell more than can be paid for in commodities. When this happens a favorable balance of trade is secured, and treasure begins to flow from debtor to creditor to satisfy the claim. As specie accumulates the currency is expanded, prices rise, the nominal, but not the real cost (cost in labor) of production is enhanced. This rise compels individuals, competing with one another, to sell to their customers abroad at advanced rates—rates which will defray the increased nominal cost. When this point is reached, and not before, the richer country obtains the full benefit of its peculiar advantages, though the individuals engaged in the trade get only the usual profits. The commodities parted with represent and contain in the aggregate less labor—fewer days' work—than those received in exchange. A yard of cotton cloth, the product of the power loom, and costing one hour's work can be sold, say, for a pound of sugar or rice costing two or three hours' work. In this manner England (and to some extent New England) gains the just reward of her industrial and inventive preëminence. Her amazing fecundity in the manufacturing line, due largely to cheap coal and iron, has enabled her, to a notable extent, to supply the world, and secure great wealth. She has drawn to herself a liberal share of the precious metals, and maintains at home a high range of prices in order that she may gather without loss the fruits of industrial superiority. Her gain is not secured at the expense of others, as popularly supposed, but is the fitting recompense of genius, energy and improved methods. Those who trade with her promote their own interest, getting more goods—more of the comforts and conveniences of life—than they could otherwise obtain. If they give two or three days' work for one, they pay the honest difference only between skilled and unskilled, efficient and inefficient labor—between labor yielding a large product and labor yielding a small one. Under a free trade system both sides are benefited, or the interchange would not be made. In no case does the fact that labor is unremunerative in one country as compared with another prevent a mutually gainful trade. Nor can the claim be sustained that low wages, nominal or real, necessarily give to a people important manufacturing and commercial advantages—advantages which those paying higher wages can wisely attempt to destroy by oppressive tariff laws. Money-wages are, in truth, high or low in different countries (made so by a just apportionment of the gold and silver of the world) that trade may be successfully prosecuted, and each community make the most of its peculiar facilities for production. Legislation which shuts out foreign goods without stopping the exports has in fact a direct tendency to lower the price of labor abroad, and otherwise increase the supposed embarrassment which protective legislation is intended to remove.

In this discussion, I have often referred to the fact that gold and silver are products of this country. An enormous amount—nearly ninety million in value annually—are taken from our mines, all of which, except the small proportion which is employed in the arts, and coined for the uses of the treasury and certain western specie-paying states, goes to swell our exports. Of course it goes as bullion or merchandise. It is a part of our surplus production for which there is no need or adequate demand at home. Under present circumstances, or till we resume payment in coin, or in some other way multiply its uses, it is impossible it should remain. In parting with it, we cancel obligations and lose nothing; or in exchange for it obtain capital which, if employed productively, will support laborers and yield a profit. Did it become a part of the circulating medium, even though we were now on a coin basis, it would not add to the comforts and conveniences of the people. So far, indeed, as it took this direction, it might, for reasons often repeated, be better sunk in mid-ocean. Except to the extent of certain additions required by increased population and trade—required to preserve uniformity in the standard of value—the world has gained nothing by all the precious metal poured into the circulation in the last twenth-eight years. Trinkets and certain ornaments and utensils of very limited utility have thereby been made cheaper, and consequently more accessible; but this can scarcely be said of any article of prime or even secondary importance. Nor, as a result, have men become wiser and better. On the contrary, a speculating spirit has been engendered, greed, dishonesty and extravagance encouraged, and industry diverted to unprofitable enterprises. The manifold evils more directly traceable to paper money inflation have no doubt been intensified by the rich mineral discoveries in California and Nevada. In a certain sense, however, this country has been largely profited by its gold and silver mines. An important and productive industry has been added to those before in existence, but the benefits conferred are by no means as great as those coming from the increased abundance of the more useful metals. It is more desirable to have cheap coal, iron, copper, spelter, lead, etc., than cheap gold and silver.

VIII.

Commercial Crises viewed as Epidemics.

There are certain familiar diseases which appear periodically and spread rapidly, involving large populations and running a definite career, which, on account of their general prevalence, are called *epidemics*. Among them may be named influenza, measles, hooping cough, cholera, the *meningitis spinalis* of horses, etc. Some of them, if not all, are contagious. The mind, like the body, is vexed by epidemic influences; has its periodic disturbances and critical seasons. It does not long or often move on in a straight line, with even step, but pursues a devious, intermittent and spasmodic course. Periods of activity and rest, of excitement and indifference, confidence and doubt, hope and fear, in perpetual alternation, have always marked its history, and forever must till human nature changes. There is a constant ebbing and flowing with occasional spring tides and neap tides to relieve the monotony. The feelings, sentiments and passions are most conspicuously and profoundly affected, now blazing up fiercely, then dying away exhausted, like a burning hay-stack when the wind is fitful. All the faculties, however, including those which make man a rational being, and should control conduct, are involved. The judgment is warped, the vision distorted, reality exaggerated, and fancy mistaken for fact. Under these circumstances, men become the prey of impostors and enthusiasts.

From the fact that the periodic excitements referred to have their origin and seat chiefly in man's social and moral natures, they have been called moral epidemics, or epidemic delusions.

They attack different classes, but with most frequency the credulous, the imaginative, the fervid, those having active nervous systems and the fanatical temperament. Once introduced, they spread by contagion; that is, one catches the prevailing disorder from another till the community is made wild by the reigning epidemic. Sympathy, example and the imitative faculty—the almost irresistable tendency to feel, think and act as others do—open a channel by which the malady passes easily from one mind, one organism, to another. Moral like other epidemics run a definite, self-limited course, terminate in a prescribed way, travel most frequently in groups and in serial order, and return at intervals more or less regular. Unlike the subjects of measles, hooping cough, etc., those once afflicted are susceptible to second and third attacks, and do in fact sicken as often as exposed. By constitution and temperament, they are naturally predisposed to this class of disorders, often receiving them in a friendly spirit as if pleasurable excitement were expected. They are of different kinds, political, religious, reformatory, financial, etc., according to the emotions awakened, and the kind of hallucination prevailing. The noblest and best as well as the meanest and worst qualities of the human character are at different times displayed. They end in wars, revolutions, persecutions and carnivals of crime; sometimes in deeds of heroism, reformation and the overthrow of abuses. They will take any proposed direction, if excited passion but lead the way.

Among the most remarkable of the epidemics about which I now write may be named those which swept southern and western Europe in the time of the crusades, precipitating on Palestine the maddened christian hosts in successive military expeditions organized to expel the infidel Turks from the Holy city. The persecutions and massacres which have marked the domination of particular religious sects at different times have had a similar origin and character. In every age, whenever a reformation of a radical character and on a considerable scale was to be secured, religious zeal rekindled, or a new faith or sect introduced, the instrumentalities known to be active in originating and spreading epidemics have been invoked. By similar means were brought forth and diffused the witchcraft delusions of Europe and America, the popular phrensy which preceded and attended the French Revolution of the last century, and the Mesmeric lunacy which broke out in Paris in 1773, and in this country forty years ago.

In some epidemics, the morbid element (which may be detected in all) is particularly conspicuous. This was the fact in one which appeared among a persecuted religious sect in the south of France. The worshipers, known as the "Trembleurs de Cevennes," were seized with trembling and convulsive movements which proved contagious. A disorder of a similar nature, with modified symptoms, the effect of "sensational preaching" and sympathy or contagion, broke out in Scotland in 1742, in Kentucky in the first years of the present century, and in other places at different times. An examination of the records of crime, etc., will show that homicide, suicide,* incendiarism, poisoning and other offences are also epidemic and contagious. The furor of a presidential election is, with us, a regularly recurring epidemic, sometimes of a malignant type.

Had the events which followed the last presidential election—those connected with the "returning boards" and the electoral commission—happened at another time, when the public mind was predisposed to and prepared for an epidemic madness, waiting impatiently perhaps for an "exciting cause" or occasion, we should doubtless have had a quarrel for the succession, and possibly a civil war. Our recent memorable experiences in the war-line, and the general business-depression and discouragement perhaps saved us. Crushed as we now are by our own folly, no wide-spread excitement will take hold of the people which does not harmonize with the general gloom. A panic in a crowded church or theatre would take well; possibly a religious excitement might be started, but in the last case the preachers would succeed least by setting forth the terrors of the law, using liberally the sulphurous element.

In the earlier stages of society, when the people had few wants and but little surplus wealth, before capital, on a considerable scale, was employed to give efficiency to labor, financial or commercial epidemics were unknown. When every man was a common laborer, producing with the fewest and cheapest tools, or

* The following is taken from a New York newspaper: "It is such an easy matter to get out of the world that it is strange that people make such hard work of it—especially in hot weather. During the past month Paris green has been used in nineteen out of twenty cases of suicide that have occurred in New York, Brooklyn, and Jersey City. In suicide personal comfort is generally sacrificed to fashion. The Pont Neuf and the London bridge became popular passage-ways to death soon after they were built. The suspension bridge at Cincinnati was barely finished when a man ended his life by jumping from it, and for a long time three out of four suicides in that city were committed in the same way. Paris green will probably have the "run" here until the East River bridge is completed."

procuring by single exchange, all he consumed, the imagination was not excited by visions of prospective and indefinite riches. Growing and stored crops for the year, scanty flocks and herds, a few beasts of burden, and land enough for their subsistence, with the simplest clothing and shelter, were all they sought with expectation, and more than they could acquire without the severest toil and privation. But when capital became an important instrument of production, making possible the utilization of the natural forces, and the introduction of machinery and numberless labor-saving appliances, multiplying and cheapening the products of industry often a hundred or a thousand fold, and placing within reach the vast resources of commerce, a way was opened and inducements offered for extraordinary accumulations. At the same time, a new class of workers was added to those before in existence; I mean the distributors of wealth, or middlemen, sometimes so called. They are a necessary part of the economic system, more important as society advances, but, from their position and opportunities, somewhat dangerous to business interests, and the welfare of the other classes. When discharging their proper functions as merchants, brokers, bankers, etc., passing over from producers to consumers the proceeds of industry, they perform an essential service, adding to substantial value, or saving in needful expenses, the full amount of their charges (toll). But too often they forget their regular duties, and usurp another office. Like others who are largely paid, they are frequently smitten with cupidity—a consuming desire to gain wealth without earning it. They attempt monopoly, or buy on speculation, and sell, not to consumers, but to speculators like themselves, using credit largely to supply the means. Their peculiar relations to the credit system and moneyed institutions of the country, when taken in connection with their needful, perhaps speculative risks, expose them to unwelcome surprises and dangerous reverses. Among them, financial or commercial epidemics always begin, and under their management run their appointed courses. To this class, panic, when it comes, is most disastrous, though other parties more blameless suffer severely.

Incidentally, on several occasions in the course of this paper, I have referred to some of the leading phonomena which attend the financial epidemic. Collectively, they constitute a disorder of a peculiar kind with unique symptoms. Recent occurrencies have made them a too familiar group. Distinctly, as they appear in the individual, they are of a morbid character, and follow one another in a determinate order, the series recurring at intervals with an approach to regularity. The following have been memorable periods in modern financial history: 1816, 1825, 1837, 1847, 1857, 1866, 1873, the periods (in consequence, seemingly, of special local influences causing acceleration or retardation) exceeding slightly or falling a little short of ten years. The average up to 1866 (the last time that the Bank of England was authorized to issue notes in excess of the statute-limit) was just ten years. What is called the crisis which immediately precedes the panic, graphically so called, marks the culmination of the epidemic. It introduces the last, most painful and appalling of a series of changes each of which is dependent on the conditions which have preceded it. The morbid mental state which is the characteristic of panic, contagious as it is in the highest degree, spreads with marvellous rapidity, using the telegraphic wires as the vehicle for the more distant places. In an able paper, in "The Fortnightly Review," Mr. Horace White notes the fact that the Anglo Saxon and Teutonic races are the most severe sufferers from commercial epidemics. The French are nearly exempt from attack.

The financial distemper, like the ordinary febrile disease, may properly be said to have three stages, one characterized by depression, another by reaction or excitement, and another by collapse and debility. That which may be called the first or introductory stage grows out of the shock which the nervous system has received at the winding up of the preceding epidemic. The panic and the external changes immediately connected with it have produced temporary lesions in the nervous centres, modifying the mental constitution, and giving exaggerated views of the business world, and one's position in it. Men of the sanguine temperament, who have seemingly been driving a prosperous trade, building larger every year, and gathering treasure and distinction, find the work of half a life-time tumbling about their ears, their fortunes wrecked and their hopes blasted. Of course they are sick, and greatly disheartened. Property which, a short time before, was supposed sufficient to make the owner rich will not sell for enough to discharge the liens or mortgages. Prices have fallen ruinously so that producers have been unable to make and sell goods without severe losses. Fearing the worst, and knowing that insolvency is the penalty for mistake, they hesitate and delay, while buyers for the same reason first postpone, then stint their purchases. Everything has gone and is still going down except taxes, which politicians contrive to maintain. Under these circumstances, labor finds scanty employment at reduced wages. Of all goods seeking a market the sale is painfully slow, and at unremunerative prices. The slack demand, the greatly reduced consumption, and the severe economy practiced in all directions, make the supply, however limited, in excess of the wants of the buying and paying public. Of course industry languishes, business droops, and enterprise is extinct. Further losses are apprehended whatever course is pursued. Occasionally, perhaps, the prospect has improved, and men been tempted to spend money, and prepare for a more active trade; but in such cases expectations have been disappointed, and those making ventures cheated by their hopes and impatience. Consequently, all are discouraged, doing best seemingly when doing least. So long as prices are still falling, the whole business population—those engaged in producing for the market, or in distributing the wealth which others create—are practically helpless—helpless till the bottom is reached. They are so because they cannot control the circumstances which determine the downward movement. It is economically impossible for either class to discharge its office, or long maintain financial existence when goods or property exposed for sale will not bring cost. If cost be not obtained there is not only individual bankruptcy, but a rapid destruction of capital—one of the industrial forces—without which labor has no efficiency, and production is at an end.

At the present moment, we are in a condition not unlike that described. We have passed through the several stages of one of the severest commercial epidemics on record. Though bruised and bleeding, and not a little crest-fallen, as a people we have so far survived the attack and its consequences. A few have gone into the insane asylums or taken Paris green; many have felt the pangs and the sorrows which come after intoxication—the "horrors," so called, of delirium tremens—and all are now very far advanced in the stage of exhausted vitality and collapse. Of recovery there are yet no decisive symptoms. For four successive seasons our financial doctors have promised speedy convalescence, and as often have announced the signs which foretell improvement, but results have shown they were arrant pretenders and quacks. No doubt the better time is coming, perhaps is just at hand. When at last it arrives, the later, more lucky, but perhaps not wiser prophets will be accounted seers. Consumption on a considerable scale, it will be remembered, particularly of those articles which supply the primary wants of the people, is all the time going on, while production, owing to extreme caution, is largely suspended. When, at length, by the unequal action of these opposing forces, a comparatively glutted market is relieved, prices will improve, and goods can be made and disposed of at a profit. Then, and not before, those engaged in business, having learned economy and cut down expenses, will be able to go forward with more assurance. Till all classes interested in sustaining prices have come down to the normal level, consented to temporary sacrifices, and made the needful reforms, there can be no advantage in starting or trying to start business. Premature efforts will inevitably fail as they have done repeatedly in the last three years, and as they did still more disastrously in 1838, preparatory to the second and final break-down in 1839. Combinations, trades-unions and other desperate expedients may, in certain cases, and for a little time, save individuals from their share of the needful losses; but they cannot avert the unwelcome necessity, much more abrogate a natural law. Had all classes forty months ago submitted to the inevitable, and at once made the sacrifices (in many cases more apparent than real) they have since vainly strived to escape, we might long since have greeted the more prosperous season for which we are waiting. Had business-men, at that time, pursued this course, remembering that price is nominal, not real—that the profits of capital and wages of labor are not determined by the money received but by the commodities, including food, clothing, shelter, etc., for which that money will exchange, there would have been no subsequent losses on the part of producers except such as grew out of the temporary stagnation in trade. If every dollar which a man gets to-day will purchase as much as two dollars would procure four years ago, it is difficult to see how his condition is made worse. The ready and sufficient excuse for the different course pursued is found in the fact that the people have been crazed, sick and in affliction, not knowing what their best good required. Their minds have been bewildered, their heads made giddy by the exciting delusions of the past. They could not think complacently of coming down in anything; and not till compulsion has braced up the resolution have any needful concessions been made.

It is not strange that many have mistaken the cause of the hard times, and, turning away from an unpalatable remedy, have so long neglected to make the needful sacrifices, looking for relief in the mean time to some juggling legislation which will unsettle values. Contrary to an opinion which prevailed extensively three years ago, it is now known that cheapening the currency, in a time of business depression, can have no tendency to restore trade and prosperity. It will not stimulate production, or give work to laborers, because it cannot create a demand for the products of industry. There are already in the market more goods than can be sold at a profit, and any considerable addition would knock down prices, and make necessary still greater sacrifices. There is more than enough money at the present time for the transaction of all the business which offers—more than enough to run all the iron-mills, factories, steam-vessels, freight trains and merchant-houses which can be run without loss. If more were issued, it could not be profitably employed, and could not be loaned to solvent men—to men who would promptly return it, with interest, when wanted. President Grant and Secretary Richardson, three years ago, without the authority of law, tried to restore health by the issue of twenty-six million of greenbacks, but failed signally and disgracefully, as those better informed anticipated. The first legal tenders which were put in circulation in 1862 acted as a spur to business because the condition of the country was wholly different. Then the government was the chief support of trade. It had taken a big contract. It borrowed capital on an enormous scale, employed half a million laborers to do its bloody work, became the great purchaser, consumer and wrecker of the products of industry, and furnished the active demand now so conspicuously wanting. Under the circumstances named business in general could not long be stagnant.

The phenomena which mark the decline of one nearly spent commercial epidemic are much the same as those which signalize the approach of another. Notably, they attend our present condition. We are now passing through a transition stage, filling up with lamentations the weary interval between the outgoing and incoming tides. No movement is yet apparent, but clearly the nervous depression, discouragement, lack of confidence (not so much in men as in prices), and flagging energy in all directions so characteristic of the times, must erelong, in virtue of a well known physiological law, give place to reaction. When sufficient vitality remains, all the morbid states of the system distinguished by the symptoms named are followed by a counter or reactive movement designed to repair the damage which the nervous centres have received. In regular febrile diseases, this reaction is attended by unnatural and conspicuous activity in the blood-vessels; but if the disorder be seated in the organs controlling the moral nature, the sanguine excitement may not be important. However this may be, relief should be expected whenever falling prices have gone far enough to guarantee reaction without relapse. When the returning flow of vital energy, answering to outward change, has reinforced and repaired the injured nervous tissues, then shall we be lifted from the "slough of despond." Then will come hope, courage, enterprise and business prosperity, putting an end to the torpor and general paralysis to-day so apparent. It is quite possible, indeed, highly probable, that declining values, owing to distrust of the future, may proceed further than necessity requires before restoring production and trade to their accustomed activity; but should this happen, recovery, when once a beginning is made, will be more rapid than otherwise, and less liable to interruptions.

Always when the stage of nervous depression has been prolonged and severe, reaction, like the returning tidal wave, tends to pass beyond the normal limit. When this tendency becomes reality, the second and most remarkable stage of the epidemic is begun. The symptoms again become morbid, morbid from excitement; and in accordance with a well understood law, are measurably more active in proportion to the severity of the preceding stage. The invariable external condition which signalizes the progress of reaction from the moderate to the vehement will be found in the steadily advancing prices—a sure and exhilarating upward movement in place of the disheartening downward tending of an earlier period. This persistent rise of money values makes the holders and purchasers of property and middle men for the time prosperous, and all classes happy. Men forget their misery, become resolute and go to work with a will. Production is largely increased, sales are quickly made, consumption is proportionally active, profits are again remunerative and wages satisfactory. Mills lately "running on half time" are fully employed, the hum of industry is heard every where, while the marts of commerce are thronged with trading people. The hopeful prospect begets confident expectation and restlessness leading to new enterprises.

Rising prices then, are the outward and immediate cause of reviving business, while reaction which, by an organic law, follows and removes nervous depression, is the inward, more fundamental cause. These augmented prices are of course equivalent to a depreciation of the currency, but those who supply the money market are compensated by the enhanced rate of interest resulting from the new demand for loans. Did the advancing movement cease when the natural level had been reached, no harm, but unmixed good would ensue; but unfortunately there is usually no halt at that point unless for a brief period. In a particular fever, the malady is not at an end when the chills, nausea, neuralgic pains and other symptoms of depression give place to returning heat and the modified relief of the second stage. The hope, sometimes favored by appearances, that reaction will not do more than restore healthy excitement is deceptive. So in a financial epidemic; the movement which inspires courage and carries up prices to the normal standard, does not stop there, but goes on to produce new changes—seductive but dangerous disturbances. The mischief wrought dates from the period when speculation begins—when men buy not for distribution, or in the way of business, but to hold temporarily for an advance, bidding against one another in the market, and running up money values. When the speculative element, in considerable proportion, enters into business, all the evils which belong to a commercial epidemic are let loose, and a financial crises becomes inevitable. The symptoms are distinctly, sometimes intensely morbid, and the disease once established, must run its course. The end is explosion, disruption, panic.

It will not be necessary to repeat at length what I have written in other places concerning the phenomena and conclusion of the second stage of the financial malady, the special circumstances which increase or mitigate its violence, the effect of paper money in facilitating its progress, or of an inflexible inconvertible currency in making more destructive the final catastrophe. Of antidotes and peremptory remedies there are none. Of means to alleviate, however, we are not destitute. These are more effectual than in influenza, measles or small pox, but are not always successful. Of course no curative agent will abrupt ly, while its essential conditions remain, cut short the distemper in any of its stages. Specifics are not known, though quack remedies abound.

In the way of palliative treatment, the first stage—that of exhaustion and depression—demands mild stimulants, exhilarants, nervines, tonics, and the usual means to sustain the courage, keep alive hope, and incline the sufferers to make promptly the required sacrifices. In the second stage—that of reaction—refrigerants, sedatives and depletion are called for. The indications (in medical phrase) are to moderate the cerebral excitement, control the speculating proclivity, and restrict or curb prices. These may all be met, and the proposed ends attained (if attainable) by the same remedies. Manifestly, the heated brain needs cooling applications; the too active cerebral functions sedative and repressive treatment; but usually, the aid of the physician, armed with the implements of torture—blisters, setons and the lancet—is not asked. Most likely his advice, if given, would be spurned. Were a prescription desired, some financial charlatan, some noted Dr. Leech, broker, loan-agent and speculator, would naturally be consulted. Relief then must be sought from another quarter. Effects (symptoms) must be modified by means which control causes and conditions; measures taken to govern trade, and through trade to suppress the exuberance of traders. Not easily can all buy and sell on an enlarged scale—cannot without embarrassment speculate successfully, or extend their credit, or by competition run up prices extravagantly—without an increased supply of money, or in a stringent condition of the money market. Money is, in an important sense, the blood of the economic system, the circulating medium which gives life to commerce and exchange. Whoever controls the currency has an instrument equal in efficiency to the lancet in the hands of the physician. Largely in either case, the manipulator holds the issues of life and death. Primarily, the government provides the currency, or determines what it shall be. In this regard, by the use of its rightful authority, it can exercise a vast influence over the commercial health of the people—an influence which will be salutary or otherwise according to the measure of its wisdom or folly. When the Constitution, for the good of all, gave to Congress the sole right "to coin money and regulate the value thereof," it made adequate provision for a measure of value and medium of exchange, the best the world has yet seen, one better fitted than any other to act as a preventive of financial sickness, and as a palliative and remedial agent when disease is already present—one which cannot be increased suddenly and indefinitely at the call of schemers and inflationists—one qualified to resist at every step wild speculation and unhealthy prices, and to embarrass those inclined to use their personal credit for illegitimate purposes—purposes hostile to our industrial, commercial and monetary systems. Though not capable of suppressing wholly the visionary in human nature, or of controlling the tendency to epidemic excitements, metallic money always exerts a sanitive influence. It checks the break-neck speed of those who would overturn themselves and the world in their haste to gain unearned riches; while paper money of whatever pattern has the effect of an immoderate stimulus and inebriant, giving "aid and comfort" to the perspiring throng of moon-struck adventurers, and urging on to a disastrous end the morbid actions. Not only is a specie circulation competent to moderate the fever and delirium of a commercial epidemic, but it is able, by another quality, to mitigate the frightful and distressing symptoms which mark the crisis or culmination of the disease. It is comparatively inflexible in one contingency, and flexible in another, both at the right time and in due degree, as heretofore explained.